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July 26, 1989

BY HAND

The Honorable Timothy H. Gailey
Commissioner of Insurance
280 Friend Street, 5th Floor
Boston, MA 02114

Re: Docket No. G-89-16

Dear Commissioner Gailey:

Enclosed please find the Proposal of Commonwealth Automobile Reinsurers for Implementation of Section 66, Chapter 273, Acts of 1988.

Very truly yours,

Mark G. Matuschak

MGM/ap
Enclosure

cc: CAR Governing Committee Members

GOVERNMENT DOCUMENTS
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COMMONWEALTH OF MASSACHUSETTS

DIVISION OF INSURANCE

DOCKET NO. G-89-16

PROPOSAL OF

COMMONWEALTH AUTOMOBILE REINSURERS

FOR IMPLEMENTATION OF

SECTION 66, CHAPTER 273, ACTS OF 1988

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I. Introduction

In 1988, the Legislature adopted Section 66 of Chapter 273 of the Acts of 1988 ("Section 66"), directing the Commissioner of Insurance ("Commissioner") to develop revisions to the operation of Commonwealth Automobile Reinsurers ("CAR"). Section 66 requires that the revisions "shall have the effect of decreasing the number of ceded policies and enhancing cost containment by participating companies." Section 66 further instructs the Commissioner to file those revisions with the Legislature on or before September 1, 1989. While the Commissioner is responsible for filing the proposed revisions, they are to be the product of consultation with CAR's Governing Committee, as well as with insurers, associations of insurance producers, and other interested parties.

Section 66 is intended to reduce the number of policies ceded to CAR, and to reduce CAR's deficit and the deficit burden on policies voluntarily written in Massachusetts. The need for such a reduction is clear, as illustrated by the testimony by many of the witnesses at the May 24, 1989 informational hearing held by the Commissioner. According to that testimony, approximately 65% of all policies are ceded to CAR, which pays an estimated 85% of all private passenger claims dollars (AG Test. at 4).[1] There was testimony that in comparison to the more than 60% cession rate to

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[1] For an analysis of the ceded market for policy years 1984 through 1989 (as of 3/89), see Exhibit A hereto, prepared by CAR Staff.

CAR, the national average is approximately 10-20% (Murphy Test. at 1-2; AG Test. at 10). Further, a number of insurers have withdrawn or are in the process of withdrawing from Massachusetts. According to the testimony of one insurer, "[t]he departure of so many companies is seriously testing the capacity of the market as the remaining players are forced to absorb an even larger share of the CAR deficit" (Travelers Test. at 1), and to service a larger number of involuntary market policies. The questions, then, are what specific objectives are to be met, and which of the many possible methods of reform are most appropriate and most likely to achieve the desired objectives.

This proposal represents CAR's effort to answer those questions. It is the product of a decision to set ambitious but achievable goals, followed by a realistic and fair examination of the many suggested reforms, and reflects the consensus of insurers and insurance producers in the Commonwealth reached after lengthy deliberation. CAR believes that this proposal can address the problems the Legislature seeks to remedy, without creating new and equally -- or more -- troublesome problems for the future. CAR believes that this proposal, if adopted, would result in a significant improvement of the Massachusetts automobile insurance system, and also would represent a major stride towards furthering the Legislature's goals when CAR was created -- the development of

a viable voluntary market and a market not subject to periodic crises.[2]

II. CAR's Work In Developing This Proposal

In the early part of this year, CAR's Governing Committee appointed a Depopulation Advisory Committee to consider and recommend to the Governing Committee the methods which CAR believes will best achieve the goals sought to be advanced by the Legislature. The Depopulation Advisory Committee consists of representatives from Liberty Mutual, Travelers, Aetna, Commerce, Berkshire Mutual and Plymouth Rock insurance companies, and representatives from three leading insurance agent associations.

The Depopulation Advisory Committee has held numerous meetings, beginning in March 1989, and continuing on a regular basis through July 1989. Those meetings were open and, as demonstrated by the records of those meetings, were attended by numerous representatives of other insurers, insurance producer associations and interested parties not formally represented on the Depopulation Advisory Committee. All of those parties had a full opportunity to participate in those meetings, and many of them in fact did so. Representatives from the Division of Insurance were present and participated at virtually all of those

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[2] See Decision and Order in the Matter of the Appeal and Complaint of The Hartford Accident & Indem. Co., Ins. Div. Docket No. 86-19, at 14 (Feb. 23, 1987), aff'd, The Hartford Accident & Indem. Co. v. Commissioner of Ins., et al., Civil Action No. 87-1635 (Suffolk Superior Court, May 10, 1988).

meetings. The Depopulation Advisory Committee considered both oral and written proposals for reform submitted by a variety of interested parties, as well as those developed by the Committee. Further, the Depopulation Advisory Committee considered the proposals made in testimony at the informational hearing.

On May 9, 1989, the Committee approved a statement of goals concerning depopulation, deficit reduction and cost-containment, and potential methods for achieving those goals. That statement was presented to and approved by CAR's Governing Committee at its May 17, 1989 meeting, and formed the basis of the testimony by William Palmer, Chairman of CAR's Governing Committee, at the May 24, 1989 informational hearing.

At its meeting on June 20, 1989, the Depopulation Advisory Committee voted to continue the discussion of seven specific concepts as the most appropriate means of deficit reduction and depopulation. Those seven concepts were made available to all CAR members and other interested parties in a bulletin issued shortly thereafter (See Exhibit B hereto).

During the course of their deliberations, the Depopulation Advisory Committee and the Governing Committee have requested that CAR Staff provide various factual information in written or chart form to assist in the consideration of the alternative methods of reform. Many of those materials are referenced below and provided with this proposal. CAR staff is continuing to collect and analyze such information, and will make that information available to the Commissioner.

In conjunction with the Commissioner, CAR also has retained and cooperated with Tillinghast, a consulting firm with expertise in insurance matters, in developing models designed to help predict the expected effects of various methods and combination of methods to reduce CAR's deficit and overpopulation. While Tillinghast's models have assisted CAR in this work, those models have been dependent on numerous assumptions, some of which are subject to change, including the types of reform methods implemented. CAR believes that Tillinghast's efforts will be most useful and more accurate when the Commissioner has finalized specific proposed reforms. At that time, CAR members will have more reliable information against which to test the models' assumptions, and in light of that information to consider potential revisions to CAR's deficit allocation methods.

Nevertheless, for the purpose of assisting CAR and the Commissioner in considering the various alternatives, Tillinghast has developed models predicated on various assumptions, which predict the results of certain reform measures based on those assumptions. The Tillinghast baseline models are predicated on the following assumptions for the years 1990-1993:

(1) total market growth of 3% per year;

(2) ERP exposure growth of 5% per year;

(3) an industry average cession rate of 54.3% per year excluding Exclusive Representative Producer business (the same rate anticipated for 1989), and approximately 65% including such business;

(3) growth in average premiums per exposure of 7% each year; and

(4) loss and ALAE ratios at both 75% at 80% levels[3] with expense ratios at present levels.

Tillinghast then considered a number of adjustments to those assumptions, some of which are set forth below in the discussion of the applicable reform methods. A copy of the most recent Tillinghast report is attached hereto as Exhibit C.

In light of all of the above information, this proposal was considered, modified and subsequently approved by the Depopulation Advisory Committee at its meeting on July 11, 1989, after providing a full opportunity for all interested parties to attend and comment. The proposal was then submitted to CAR's Governing

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[3] The variation in loss and ALAE ratio percentages is the only difference between the two baseline models, hereinafter referred to as Baseline 1 (80%) and Baseline 2 (75%). The original Tillinghast baseline model assumed an 80% loss ratio. Tillinghast explained at the July 19 Governing Committee meeting that 80% was used because Tillinghast wanted to "start with modeling the system as people find it now."

Mr. Stone of Plymouth Rock noted, and Tillinghast confirmed, that using an 80% loss ratio assumes an underwriting result of a 114% combined ratio for the total market rather than the 107% set in the Commissioner's rate decision, that such a 7-point difference, after considering lost investment income, would have a considerable effect on the results shown by the Tillinghast models, and that the models assume that such a difference would be projected into the future. Tillinghast further indicated that the loss ratio is one of the three most important factors (the other two being cession limits and credits) affecting the results of its models.

Some Governing Committee members suggested in response that the Tillinghast model instead assume a 75% loss ratio, that is, that the loss ratio in the Commissioner's rate decision would correspond with the actual loss ratio. As Mr. Remillard of Commerce indicated, "[w]e are not going to accomplish anything" if such a differential in the combined loss ratio is assumed. Other members, however, including Mr. Perrin of Aetna, stated that using 80% (and thereby assuming a continuing disparity) "makes more sense because that's more like what it really is." Ultimately, the Governing Committee unanimously voted, and Tillinghast agreed, to have baseline models drawn using both assumptions.

Committee. After considerable discussion at its regular meeting on July 19, 1989, the Governing Committee modified and then formally approved the submission of this proposal to the Commissioner.[4]

Some of the proposals set forth below will require legislative change and/or changes to CAR's Rules of Operation. CAR's Governing Committee will hold a special meeting on August 7, 1989 to consider and propose specific language to implement such changes, and will then forward that proposed language to the Commissioner.

III. Recommended Goals

In Section 66, the Legislature has provided only that the adopted revisions are to "have the effect of decreasing" the number of policies ceded to CAR and CAR's deficit, and of enhancing cost containment. CAR has developed, however, an ambitious but achievable set of three primary goals which it

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[4] Of the thirteen Governing Committee members, twelve voted in favor of this proposal. Mr. Perrin of Aetna voted against the complete proposal not because of any dissatisfaction with the proposal itself, but because of the position that ratesetting reforms, in addition to the adoption of this proposal, "are critical to companies who will be asked to participate in depopulation with no assurance that the fix and establish process will be revised to give companies a reasonable chance to earn a fair return on the business they will be asked to write and the potential continuing CAR assessments that may still occur." Indeed, Mr. Perrin noted that he "could not think of a better way to do the depopulation," and that "[t]his package if coupled with a change in the rating methodology, preferably with competitive rating or something of that nature . . . . [would be] a good package."

believes will meet not merely the letter of Section 66, but also the spirit and policies underlying that statute.

The three principal goals identified by CAR, and the goals against which CAR has judged the potential reform methods to be adopted, are to:

(1) Reduce CAR's private passenger deficit by 50% to approximately $250 million;

(2) Increase the voluntary market from about 33% to 67% of the private passenger risks insured in Massachusetts; and

(3) Enhance the viability and strength of the voluntary agent concept.

CAR has discussed and considered a number of methods to achieve those goals, as set forth below.

In considering and implementing these methods CAR believes that future rate adequacy is vital. While CAR and the industry must do their part to enhance cost containment and efficiency, "[w]ithout rate adequacy . . . no solution will be viable in the long run" (AIA Test. at 3).[5]

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[5] Indeed, there was testimony at the informational hearing that CAR's deficit and overpopulation are products in part of at least perceived, past rate inadequacy. See Hanover Test. at 5 ("CAR's excessive deficit and overpopulation result largely from inadequate rates"); Utica Test. at 4 ("net result" of "inadequate rates" is a "residual market which handles more than 60% of the total automobile market"); Travelers Test. at 1 ("rate inadequacy" is one of the "problems that have caused the residual market to grow to its current size"). See also CNA Test. at 5 ("continued inadequacy of automobile insurance rates" is a reason for current "crisis"); PIA/IIAM Test. at 1 ("most effective tool in assuring . . . viable voluntary market is rate adequacy"); AAI Test. at 3 ("more companies likely [will be] writing risks on a voluntary basis" if such risks "can be written with an opportunity for a profit").

IV. Analysis and Recommended Methods

A. Cession Limits/Penalties

CAR believes that cession limits and the imposition of cession penalties for exceeding those limits are a necessary part of any depopulation effort designed to meet the goals described above. A cession limit simply limits the total percentage of an insurer's business that may be ceded, and therefore directly affects the number of risks ceded to CAR as well as CAR's deficit.

Cession limits have the advantage of providing insurers with a predictable outcome in terms of the size of the ceded market. However, any cession limit requires rates to be adequate and fair. There was testimony at the information hearing that mandatory depopulation through cession limits, if not "carefully designed," could produce "unintentional side effects" including the continued exodus of insurers from the Commonwealth (AG Test. at 10). Similarly, it was noted that cession limits could merely aggravate present problems if rates are inadequate and force insurers to retain policies voluntarily at a loss (AAI Test. at 6; CNA Test. at 12).

In order to develop an analysis concerning cession limits, the Depopulation Advisory Committee instructed CAR Staff to prepare a chart showing the relative effect, in terms of percentage of exposures ceded to CAR, of differing levels of cession limits concerning both voluntary ceded and ERP business. A copy of that chart is attached hereto as Exhibit D. According to that information based on 1988 data, cession limits will go

very far toward achieving the depopulation goal identified above once they reach levels of approximately 20% of voluntary ceded business, assuming that 10-20% of ERP business is written voluntarily.[6] The Tillinghast models show similar figures. The models demonstrate that, in terms of reducing the CAR deficit as a percentage of voluntary premiums, cession limits are the single most effective and important part of doing so. For example, under the Baseline 1 model, cession limits alone can be expected to reduce the CAR deficit as a percentage of voluntary premiums from the projected 73.4% in 1993 to 39.8% instead.

In light of the information establishing the potential effectiveness of cession limits in achieving the goals identified above, and considering the difficulty of achieving those goals without cession limits, those members of CAR's Depopulation Advisory Committee who were initially opposed to cession limits agreed that they are necessary under current conditions. Considerable discussion at the Depopulation Advisory Committee also occurred concerning the appropriate cession limit levels, and

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[6] The figures on Exhibit D assume that each insurer cedes at the maximum permissible level. While that may be an appropriate assumption as cession levels decrease, at the present time many insurers cede at levels below the industry average. For that reason, the chart does not reflect accurately the effect of the 1990 cession limit of 55% on voluntary ceded business. By contrast, both the Tillinghast Baseline 1 and Baseline 2 models demonstrate that, assuming insurers continue their present cession strategies, in fact the 55% cession limit in conjunction with the other parts of this proposal will reduce both the cession rate for voluntary ceded business and the cession rate including ERP business by more than 10 percentage points, to about 40% and 54%, respectively, in 1990.

whether those levels should be set for one year or for several years.

CAR has concluded that a mandatory cession limit of 55% of private passenger voluntary business (that is, exclusive of ERP business) should be established for 1990, and that cession limit goals for 1991-1993 should be 45%, 35%, and 25%, respectively.[7] With respect to the 1990 mandatory limit, CAR recognizes that this limit approximates the present industry average cession rate for voluntary business. However, some insurers have cession rates considerably in excess of this percentage. CAR determined that the initial cession limit should not be so onerous as to be the deciding factor in any insurer's decision whether to remain in the Massachusetts market. Moreover, assuming that insurers which are now below the industry average cession rate continue their present cession behavior, it may be expected that the overall cession rate for voluntary ceded business in 1990 will be measurably less than the 55% cession limit once insurers now ceding above that rate reduce their cessions to the permissible limit.

With respect to years following 1990, CAR concluded that to set those cession limits now, without the ability to consider market conditions in those years, might produce unintentional and

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[7] This part of CAR's proposal received the affirmative vote of eleven of thirteen Governing Committee members. Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above. Mr. Brewer of Arbella abstained because he felt that stricter cession limits should be adopted. Specifically, Mr. Brewer had voted in favor of the 40%-30%-20% (for 1990-1992) cession limits proposed by Mr. Stone of Plymouth rock, but not accepted by a vote of 5 Governing Committee members in favor to 8 opposed.

possibly disastrous side effects if the market becomes unexpectedly less favorable. Nevertheless, to demonstrate CAR's commitment to significant cession limits, to show CAR's intention to achieve the goals identified above, and to provide insurers with some measure of future predictability about the expected reduction in cession rates, CAR has set cession limit goals for the years 1991-1993, to be evaluated during the summer of the preceding year in light of the then current market conditions. While less favorable market conditions than presently expected might inhibit the ability to meet those goals, more favorable market conditions could permit more significant reductions.

With respect to the imposition of penalties for an insurer's failure to meet the cession limits, CAR has concluded that the most appropriate penalty would be to deny such an insurer its expense reimbursement for the ceded business exceeding the limit, except for taxes and commissions. This would not prevent recovery of direct out-of-pocket costs by an insurer which tries but fails to meet the cession limit, and yet would prevent even that insurer from recovering any company expenses on the excess cessions, representing approximately half of the insurer's expense reimbursement.[8]

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[8] CAR also considered but declined to adopt cession penalties involving the imposition of financial penalties for risks which have been ceded but, in fact, more appropriately should have been retained in the voluntary market based on actual experience. CAR rejected this type of penalty because its imposition would tend to result in potentially unfair second-guessing of even reasonable underwriting decisions. Moreover, the method described below will act as a de facto cession penalty, since it will reduce the expense allowance for insurers which cede good business on an

In addition, to deter Servicing Carriers from cancelling voluntary agents for the purpose of avoiding cession limit penalties, CAR will establish separate private passenger codes for agents cancelled by Servicing Carriers after June 30, 1989, will monitor those cancellations, and will establish rules to impose appropriate penalties on Servicing Carriers which use agency cancellation as a means of avoiding cession limit penalties.

B. Adjustment Of Expense Allowances

CAR has decided that expense allowances for Servicing Carriers should be reviewed and modified so that they more clearly reflect the actual cost of servicing an individual Servicing Carrier's ceded book of business. CAR believes that this would be a more rational method of compensating Servicing Carriers than the present method, which is based solely on when an ERP was so designated. This should result in reducing the approximately $70 million of additional expenses associated with the higher expense allowance level, and therefore in reducing CAR's deficit.

At the present time, Servicing Carriers receive approximately the same expense reimbursement allowance for ERPs who were "designated brokers" under CAR's predecessor, the Massachusetts Motor Vehicle Reinsurance Facility, which they received for such designated brokers under the Facility. By contrast, Servicing Carriers receive an expense reimbursement allowance of about 16% less for all other involuntary producers assigned after CAR began

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overall basis at a higher percentage rate than the rest of the industry.

operation on January 1, 1984. CAR believes that the difference in the actual expense burden of servicing policies from the two categories of ERPs does not necessarily correspond with the difference in the expense reimbursement they now receive, even though claims frequencies, loss ratios, theft rates and SIU claims referrals may be significantly higher among CAR I.D. Code 3 producers compared to voluntary business.

In order to provide the factual basis for developing a method to alter the present method of determining the appropriate expense allowance, CAR Staff initially prepared exhibits illustrating liability and physical damage exposures and loss ratios by territory and CAR I.D. Code for calendar year 1987. A copy of those exhibits are attached hereto as Exhibit E.

Subsequently, the Depopulation Advisory Committee instructed CAR Staff to provide -- by involuntary producer -- various information concerning claims frequency, volume of business, and policy transaction ratios. The Depopulation Advisory Committee has requested that this information be compared to the statewide average and to voluntary produced business, to help determine the appropriate adjustments or changes to the current system of expense allowances. CAR Staff is presently developing that information.

CAR has decided to adopt in substance a proposal made by Commerce (attached hereto as Exhibit F) concerning the method of adjusting expense allowances so as to reduce CAR's deficit.[9]

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[9] This part of CAR's proposal received the affirmative vote of

Essentially, an interim expense allowance would be set each year based on both a maximum total industry expense allowance as determined by the Governing Committee at the beginning of the year, and a sliding scale method of reimbursement based at least primarily on claims frequency (on an earned exposure basis) for each Servicing Carrier's total book of ceded business.[10] The maximum industry expense allowance would permit the Governing Committee to ensure that a particular level of savings, and thus reduction of CAR's deficit, occurs. That decision would take into consideration the expense needs established by the Commissioner in the annual rate decision.

The "sliding scale" would determine each Servicing Carrier's interim portion of the total expense allowance allocated, excluding commissions, direct selling expenses and premium taxes, based not on simply the classification of its producers by CAR I.D. Code, but instead on those producers' aggregate claims frequency, a reliable measure of the workload placed on each Servicing Carrier in servicing its own particular book of ceded

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twelve of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above.

[10] CAR believes that claims frequency would be closely correlated with other potential methods of measuring the work generated by a Servicing Carrier's book of business, such as policy transactions. However, CAR has concluded that it would be appropriate to reexamine this belief once CAR Staff has been able to assemble data concerning such measures of workload, to determine if such a correlation in fact exists. To the extent that it does not, CAR believes that it might then be appropriate to consider some type of weighted index considering claims frequency and other relevant factors in determining where each Servicing Carrier falls on the "sliding scale."

business. An example of the way in which this method would work is contained in Exhibit F (but would be calculated on an earned, versus written, exposure basis).

This method then would be subject to a "truing-up" procedure reflecting actual experience during the year in question. Specifically, actual claims frequency data would be gathered for each Servicing Carrier and compared against the ceded industry average. To the extent that a Servicing Carrier's actual results deviated upward or downward from the average, its ceding expense allowance would be adjusted.

Thus, a Servicing Carrier which experiences a claims frequency on its total book of ceded business which is less than the industry average would have a final expense allowance lower than the industry average by the same proportion. By contrast, a Servicing Carrier whose claim frequency on its total book of ceded business is higher than the industry average would have a final expense allowance higher than the industry average by the same proportion. This would compensate those Servicing Carriers who have been assigned ERPs which, regardless of their classification, generate more work for the Servicing Carrier. However, basing the calculation on claims frequency would make the determination not subject to manipulation and remove any otherwise counterproductive incentives with respect to claims practices.[11]

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[11] For example, basing the allowance on loss ratio, in addition to being more difficult to calculate accurately, would reward insurers for paying more for claims, since they would receive a higher expense allowance. Clearly such an incentive would be inconsistent with the cost containment and deficit reduction goals

The Governing Committee has not yet set the 1990 overall industry ceding expense allowance. That decision in part will depend upon the data now being collected by CAR Staff to be used in measuring the workload generated by each involuntary producer, and thus in establishing the appropriate levels of allowance for each Servicing Carrier on the sliding reimbursement scale.[12]

This revised method of determining expense allowances will have a number of beneficial effects. It will provide an incentive for depopulation, as the ceding expense allowance will be reduced on good business that an insurer cedes. The method is fair to all Servicing Carriers, because it will reflect much more accurately the workload placed on each such carrier by the involuntary producers assigned to it, and will not be based arbitrarily on the CAR I.D. Code of the broker. Moreover, the method is simple to understand and to implement, and will be more consistent with the Commissioner's annual rate decision.

C. Class/Territorial Credits

As set forth above, CAR Staff has provided the Depopulation Advisory Committee with an analysis of the utilization of class and territorial credits under the present system (Exhibit G hereto), in part to determine whether any adjustment is necessary

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outlined above.

[12] That data will help to establish any differences in actual workload between various CAR I.D. Code producers, and thus be important in determining the savings that might be realized without adversely affecting Servicing Carriers' ability to service involuntary business.

or appropriate. It has been the policy of the Governing Committee to provide territorial credits, in an effort to make equally likely the retention in the voluntary market of otherwise similar risks in all territories. It has not, however, previously been CAR's policy to do the same with respect to statistical classes.

Liberty Mutual had proposed the institution of actuarially determined credits to encourage the voluntary writing of inexperienced male principal operator risks.[13] In response, CAR has decided to propose the expansion of its credit policy such that each statistical class is to be assigned a credit sufficient to encourage insurers to write business from each such statistical class voluntarily.[14] The matter has been referred to CAR's Actuarial Committee for determination of the appropriate credit for each statistical class, consistent with the policy set forth above.

This action should have two principal, beneficial effects. First, it will decrease the number of risks ceded to CAR, and therefore will help achieve depopulation goals. Second, it will in some cases encourage the voluntary writing of risks with higher loss ratios than might otherwise occur, thus contributing to a reduction in CAR's deficit as well. For example, according to the

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[13] CNA had proposed at the information hearing that all territorial and class credits be eliminated (CNA Test. at 12). In light of the action taken by the Depopulation Advisory Committee on expense allowance reimbursement, CNA supported the Depopulation Advisory Committee actions on this subject as a compromise.

[14] This part of CAR's proposal received the affirmative vote of twelve of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above.

Tillinghast Baseline 2 model, the removal of sufficient high loss ratio risks (such as male inexperienced principal operators) from CAR could reduce CAR's deficit by more than $150 million by 1993 and the CAR deficit as a percentage of voluntary premium by about 10 percentage points.[15]

D. Expanded Voluntary Opportunities For Involuntary Producers

An agency system based primarily on producers having voluntary contracts with insurers is healthier than a system dominated by ERP business. Under current conditions, the Massachusetts market is drifting toward fewer voluntarily-contracted producers and more ERPs. The amount of business now handled by ERPs is approximately 23% of the market (Exhibit A hereto), and ERPs represent more than half of all producers. The following are CAR's proposals to help reverse this trend.[16]

1. Distribution of information.

Many involuntary assigned producers and ERPs may be so classified more as a result of history than of actual unwillingness by insurers to offer voluntary contracts.

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[15] That is, the removal of sufficient high loss ratio risks (because of credits) compared to low loss ratio risks (because it represents the best of the ceded business) removed would tend to produce a result roughly similar to the "random" removal of CAR risks as set forth in the Tillinghast models. There would, of course, be a corresponding, significant increase in the voluntary loss ratio, which should be offset by the credits for taking the risk out of CAR.

[16] This part of CAR's proposal received the affirmative vote of twelve of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above.

Accordingly, upon the recommendation of several insurers, including Safety and Liberty Mutual, CAR will notify all members of the availability of a listing of involuntary assigned producers and ERPs, providing for each producer, separately for private passenger and commercial business over each of the last five years, as much of the following information as is feasible:

(1) volume of business;

(2) claim frequency;

(3) loss ratios;

(4) policy cancellation and other transaction ratios; and

(5) assigned Servicing Carrier and appointment history.

These data elements will be broken down further by rating territory or town if feasible. Any member which desires to receive that listing will be provided it upon request.

CAR expects that distribution of this information will cause insurers to enter into voluntary contracts with some of these producers, and thereby further the reduction of CAR's overpopulation. According to the Tillinghast model, if 20% of expected ERP business, growing at the total market rate for 1990-1993, were written voluntarily, CAR's deficit could be reduced by about $30 million per year, and the deficit as a percentage of voluntary premium likewise reduced by about 5%.[17]

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[17] The Tillinghast figures are not formal projections, and therefore the actual effect of such voluntary writings may differ. The Tillinghast figures are more appropriately considered as showing the relative effect of certain events, in relation to the Tillinghast baseline models which assume that no depopulation efforts are undertaken -- with deficits of about $765 million (Baseline 1) and about $638 million (Baseline 2), a deficit as

In order to address the potential problem of multi-Servicing Carrier ERPs that the encouragement of voluntary writing of ERP business might create, CAR will propose a change to its Rules of Operation to the effect that when an insurer other than the Servicing Carrier assigned to an ERP agrees to write some or all of the ERP's business voluntarily, the new insurer will not be permitted subsequently to cede that business. Further, if the new insurer is or becomes a Servicing Carrier, the ERP will not be permitted to place involuntary business with that insurer.

2. ERP take-out credits.

CAR has considered providing credits to insurers for entering into voluntary contracts with ERPs and/or for voluntarily writing risks produced by ERPs and presently ceded to CAR. However, after considering the potential problem of such credits making ERPs more desirable than voluntary agents, a result inconsistent with the goals identified above, CAR has determined not to propose such special credits which are limited only to certain producers.[18]

3. Restrictions on new/existing ERPs.

CAR is proposing several changes to help reduce the number of new and existing ERPs and to implement and enforce performance

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percentage of voluntary premium of 73.4% and 61.3%, respectively, and voluntary loss ratios of 45.7% and 41.1%, respectively, by 1993.

[18] Both Safety and Liberty Mutual initially proposed rule changes with respect to ERP take-out credits. In light of those concerns and the other action taken by CAR making such credits less important (for example, the modified expense allowance, cession limits, statistical class credits), both Safety and Liberty Mutual

standards concerning new and existing ERPs. These changes are designed to help reduce ERP business, and therefore reduce the number of risks ceded to CAR.

First, CAR is proposing that its Rules of Operation be amended to provide that a broker making application for appointment to a Servicing Carrier must satisfy the Governing Committee that he or she has successfully completed a course of study approved by the Commissioner and passed a test on that course at its conclusion. Such a course should concentrate on the Massachusetts automobile system and be offered by an industry-sponsored organization. Further, the prospective ERP should be required to demonstrate that he or she has worked for at least six months with a licensed agent or with a Massachusetts automobile insurer, during which time the applicant devoted the majority of his or her efforts to the Massachusetts motor vehicle market.

Second, CAR is proposing that the Commissioner consider restricting all new ERP appointments (except those resulting from termination of a producer's voluntary contract), subject to the prospective ERP demonstrating market need based on criteria to be established by the Commissioner. CAR is willing to work with the Commissioner to develop those criteria, and it may be appropriate to accomplish the contemplated restriction through a change to CAR's Rules of Operation.

Third, CAR is requesting that the Commissioner consider whether any ERP in a market where there is no market need for that ERP should be provided with some finite period of time in which to

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withdrew their prior proposals.

obtain a voluntary contract. The determination of market need is to be made by the Commissioner based on criteria to be developed. Such a change also might be accomplished through an amendment to CAR's rules developed in conjunction with the Commissioner.

Finally, CAR will propose a change in its Rules of Operation increasing the minimum threshold of writings for ERPs. CAR's current rules provide that an ERP must write a minimum of 50 risks by the end of its first year and 100 risks by the end of its second year, with a one year probation period if those thresholds are not met. The new proposal will require ERPs to write a minimum of 100 risks by the end of their first year and 250 risks by the end of their second, again with a one-year probationary period. CAR also proposes that this volume requirement become applicable to producers who become ERPs by virtue of the termination of their voluntary contract with an insurer.

E. Two-Tier Rate

Presently in Massachusetts, the premium paid by an insured is, except for the SDIP program, the same for a risk of the same classifications regardless of the differences in driving record and claims history. This stems in part from the requirement imposed by the Legislature that there be no different rate for risks ceded to CAR. That requirement, in turn, is based on the realistic understanding that not all risks ceded to CAR are ceded because of the risk's poor driving record; some CAR risks have clean driving records (AG Test. at 12). The Legislature's concern, therefore, has been that a separate CAR rate would

penalize unfairly drivers whose policies are ceded to CAR for reasons unrelated to their driving records.

For example, a good risk may be ceded because of a perception that the rate for that risk is nevertheless inadequate. In addition, insurers may, in a heavily ceded market, tend to cede risks to CAR even if the overall rate level is adequate, due to the size of the CAR deficit load on each voluntary risk. Moreover, the Legislature has sought to avoid discrimination against good drivers, as Senator Houston explained at the informational hearing, based on the driver's residence in the "wrong zip code," or the driver's race or socioeconomic status.

By contrast, virtually every person testifying at the informational hearing agreed that a higher, "dirty" rate which did not involve unfair discrimination and was based solely on objective factors involving, for example, the insured's driving and claims record, would be an appropriate way in which to remove the subsidy now enjoyed by poor drivers at the expense of good ones. See, e.g., MASSPIRG Test. at 2 ("MASSPIRG supports the concept of higher rates for higher risk drivers . . . . based solely on an individual's own driving and claims experience"); AG Test. at 12 (higher rates acceptable "if objective . . . . criteria are used"); Arbella Test. at 5 (higher rate only "on basis of objective, verifiable criteria that identifies poorer drivers"); AAI Test. at 5 ("objective standards . . . must be established"); PIA/IIAM Test. at 2 ("objective underwriting criteria" for "dirty" rate in both voluntary and involuntary

market). Indeed, the Commissioner's recent decision regarding competition likewise acknowledges that issue of the rate subsidy of the residual market must at some point be addressed.[19]

Such a revised rate structure should have a favorable impact on CAR's deficit, because there would be more premium dollars to cover the claims made by poor drivers, the costs of which are now subsidized by good drivers. In addition, a lower deficit will result in a lower CAR "load" on each voluntary retained policy, making voluntary business more profitable and therefore increasing the likelihood that additional risks would be retained voluntarily. Further, drivers would have a strong financial incentive to improve their driving habits, which should result in fewer claims, and therefore a lower CAR deficit. A number of other states, such as New York, Connecticut and North Carolina, have two-tier structures within their residual markets. Such a separate rate, coupled with objective criteria tied to individual records, has withstood challenges attacking it as discriminatory.

For example, North Carolina has two rates within its involuntary facility, a "clean" rate and a "dirty" one for drivers who meet certain objective criteria linked to their own records. However, an insured who, if ceded, would qualify for the "dirty" rate, pays the normal voluntary rate if his or her policy is voluntarily retained. The insured must be advised of a decision to cede his or her policy, be provided with a statement of the

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19 See Opinion, Findings and Decision on the Operation of Competition among Motor Vehicle Insurers, Ins. Div. Docket No. G-89-8, at 14 (June 28, 1989).

reasons for that action, and be given an opportunity to determine if other insurers will write his or her policy on a voluntary basis. Thus, a separate CAR "dirty" rate coupled with the necessary objective criteria would provide the insured -- who now is not told that his or her policy has been ceded to CAR -- with an incentive to improve his or her driving record and to place his or her policy in the voluntary market. The Tillinghast model demonstrates that, quite aside from its impact on driving habits, a two-tier rate would reduce both CAR's deficit and the deficit as a percentage of voluntary premium.[20]

CAR therefore has concluded that a separate CAR rate should be established, and that such a rate would be charged only to risks meeting certain specific, objective criteria based on individual driving and claims records.[21] Drivers who meet the "dirty" rate criteria could be ceded to CAR (with the higher "dirty" premium going into CAR and lowering CAR's deficit), or could be retained at the normal rate in the voluntary market.[22]

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[20] The Tillinghast model assumes rate level increases in 1990 of -2.0% for I.D. Code 00, +0.5% for I.D. Code 04 "other than ERPS" and +3.0% for ERPs, as the implementation of a separate CAR "dirty" rate.

[21] This part of CAR's proposal received the affirmative vote of ten of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above. Mr. Stone of Plymouth Rock also abstained because, while not opposed to a separate CAR rate in principle, he did not believe that it had been demonstrated that an objectively calculated separate CAR rate could be simultaneously fair enough to be publicly acceptable and financially powerful enough to be worth the effort. Mr. Brewer of Arbella voted against the separate CAR rate, but did not specify the reasons for that opposition.

[22] For example, a driver eligible to be ceded to CAR at the

CAR will refer to its Actuarial Committee the question of what the necessary objective criteria should be for eligibility for the separate CAR "dirty" rate. The separate CAR rate itself should be set by the Commissioner, with the goal to reduce but not necessarily eliminate entirely and/or immediately the full disparity between the actual rate charged for such "dirty" risks and the actuarially appropriate rate.

A separate CAR private passenger rate is presently prohibited by statute and therefore would require legislative change. From a legal perspective, such a separate rate has been sustained in at least one other state as permissible if the rate is based on objective factors relating to the insured in question.

F. Modified Commission/Expense Allowance On CAR "Dirty" Rate

In conjunction with a two-tier rate structure, CAR believes that a modified commission/expense allowance structure concerning the "dirty" rate is appropriate.[23] For example, with a separate CAR "dirty" rate, there would be an incentive for producers to steer business toward the involuntary market. That is, if commissions as a percentage of premium were the same both for the

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"dirty" rate may have a poor driving record in terms of moving violations, but a good claims history. Some insurers might be willing to retain that policy in the voluntary market at the normal "clean" rate. A separate CAR rate for "dirty" risks would neither encourage nor discourage that risk to be ceded, but would ensure more premium dollars to cover CAR's deficit if the policy were ceded and would provide the insured with an incentive to find an insurer which might be willing to write the policy voluntarily.

[23] This part of CAR's proposal received the affirmative vote of twelve of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above.

CAR "dirty" rate and the clean rate applicable to CAR and non-CAR risks, the producer would receive a higher dollar amount in commissions for policies eligible for CAR's "dirty" rate if they were ceded to CAR. This would be counterproductive to the goals set forth above. Similarly, an increased "dirty" premium would generate a larger expense allowance for companies ceding a policy eligible for CAR's "dirty" rate, because the expense allowance percentage would be applied to a higher premium base.

In conjunction with a separate CAR rate, these incentives should be removed. To do so, the producer will receive constant dollars in commissions regardless of whether the risk is ceded (that is, no commission on the surcharged aspect of the premium), and the insurer also will receive no expense allowance on the surcharged aspect of the premium (except for premium tax reimbursement). Producers and insurers would not be affected adversely, since they would receive the same amount of money that they now receive for the same amount of work. Moreover, the additional premium would be used entirely to provide more dollars toward payment of the CAR deficit, and thus result in a lower deficit and a lower CAR "load" on voluntary business. This change, to the extent that it excludes commission on the additional premium, also requires legislative change.

CAR also has considered the question of whether to reduce generally commissions on ceded business. After extensive discussion, no consensus or conclusion was reached on this issue.

G. Cost Containment

The most important step in cost containment is significant depopulation of CAR. Thus, all of the other steps described in this proposal should themselves work to help contain CAR's costs. In addition to depopulation measures, other improvements in cost containment should work to reduce the claims paid on CAR risks, and hence further reduce the CAR deficit and the CAR deficit "load" on voluntary risks. CAR believes that adequate rates in the voluntary market are necessary to create a meaningful opportunity for the industry to adopt and follow cost containment concepts. Adequate rates, in turn, must be a product both of industry effort to reduce claims costs and regulatory effort to ensure the fair and reasonable application of ratemaking factors.

As one step towards achieving cost containment, CAR has proposed an amendment to its Rules of Operation requiring CAR Servicing Carriers to implement a direct payment plan involving body shop referrals. In general, this involves paying to insureds directly an amount which a certified shop has guaranteed will cover the repairs in question, together with the commitment that work done pursuant to that guarantee will be sound. The insured then is permitted to have the repair work done at the guaranteeing shop, or at any other shop. This should result generally in more competitive repair rates. The Commissioner held a hearing on this rule change on April 14, 1989, and a decision has not yet been rendered.

Sections 41 and 44 of Chapter 273 also require the establishment of claims and SIU performance standards. Such claims and SIU standards were developed by CAR and have now been approved by the Commissioner. CAR's Claims Advisory Committee will now consider methods to measure compliance with those standards, to ensure that CAR is vigilant in its claim review function and its monitoring of Servicing Carrier claims handling and SIU practices.

CAR also has recently begun implementing a pilot program in the city of Lawrence involving prescreening for early detection of fraudulent personal injury claims. Under this program, police department accident reports are forwarded to CAR, which then sends the report to the responsible Servicing Carrier for early comparison of discrepancies involving the number of occupants reported in the car and the number of persons claiming to be injured in the accident.[24]

H. Distribution Of CAR's Losses

This proposal intentionally does not address methods of reallocating CAR's deficit in a different manner. CAR believes that sensible depopulation of CAR is the first order of business for the benefit of the public, the agents and insurers alike. On this point, there is consensus.

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[24] This part of CAR's proposal received the affirmative vote of twelve of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above.

There are many other residual market operation and participation issues on which there is no consensus. CAR urges that these matters be considered subsequent to, and in the context of, the depopulation approach that is ultimately selected. CAR has reached this conclusion in part because simply reallocating CAR's deficit among insurers will not accomplish any of the primary goals set forth above.

As testimony submitted on behalf of the Attorney General pointed out, "[s]licing an oversized pie differently will shift costs between insurers, but will not benefit consumers or stabilize the market" (AG Test. at 2). Reaching such a consensus on this extremely divisive issue, with significant financial repercussions for each insurer, will be far easier to accomplish once insurers reasonably can expect that the deficit to be reallocated is much smaller. See AG Test. at 2 ("if the CAR deficit is significantly smaller than at present, allocation of the remaining deficit is less critical"); PIA/IIAM Test. at 2 ("elimination or change or Rule 11 before the ultimate depopulation of CAR would . . . create havoc with the auto insurance market").[25]

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[25] This part of CAR's proposal received the affirmative vote of ten of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above. Mr. Burns of Liberty Mutual also abstained, only because at the May 24 informational hearing he had testified that CAR Rule 11(B)(1)(e), concerning minimum pre-credit participation ratios, should be expanded beyond the present 60% level for 1992 and subsequent years to 80% in 1993 and 100% in 1994 (See Liberty Mut. Test. at 5). Mr. Brewer of Arbella voted against this part of the proposal based on his position that Rule 11 should evolve to some type of utilization concept. In response to questions, Mr. Brewer

Accordingly, consideration of methods involving the allocation of CAR's deficit should occur only within the context of the implementation of a specific set of proposals for deficit reduction, depopulation, and cost containment which insurers prudently can believe will achieve certain reasonably specific results.[26]

I. Other Matters

CAR also is considering the advisability of requiring Servicing Carriers to forward premiums to CAR when the policy is ceded to allow reduction of the deficit through investment income. There are many alternative ways of implementing such a requirement, and while this matter is under active consideration, its resolution will be dependent on information now being developed by CAR Staff and Tillinghast regarding the effect of such a requirement on CAR's deficit.

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acknowledged that such a change "can't occur overnight," and stated that if such a change occurred in 1992 at the latest it would be acceptable. Also in response to questions, Mr. Brewer stated that the elimination of Rule 11 in favor of a formula based on voluntary writings rather than utilization would be worse than the present Rule 11. Mr. Mahar of Travelers commented that he did not want to imply by silence that he necessarily supported utilization as the only method to replace Rule 11. Mr. Remillard of Commerce inquired whether it was necessary for him to make a defense of Rule 11, but concluded that it was not at that time.

[26] In conjunction with such a subsequent reevaluation of Rule 11, the proposal will be considered that all motor vehicle insurers be required to be Servicing Carriers, with the options of servicing involuntary market policies, "buying out" of that obligation with some payment to CAR representing an approximation of the burden thereby placed on other Servicing Carriers, or contracting with another Servicing Carrier to provide the services. That issue will be resolved depending on changes made to Rule 11, and need not be addressed at this time.

In addition to adopting objective criteria, based on each insured's driving and claims records, for imposition of a "dirty" rate, CAR has considered whether such criteria -- and/or other factors -- could be made mandatory cession criteria; that is, no risk could be ceded to CAR without meeting those criteria. Such criteria suffer from the drawback of requiring insurers who do not wish to write a policy voluntarily nevertheless to do so, and thereby could be expected to exacerbate insurers' dissatisfaction with the Massachusetts automobile insurance system. CAR has determined that the goals expected to be achieved by establishment of cession criteria are already served by cession limits, that cession limits are more appropriate and less likely to engender widespread industry dissatisfaction, and that whether to adopt cession criteria is therefore mooted by adoption of cession limits.[27]

V. Conclusion

In the testimony by numerous interested parties before the Commissioner, some parties have put forth constructive proposals, others have merely criticized things as they are or the proposals of others. It is clear, however, that reform is necessary, and that every participant in the Massachusetts automobile insurance system must bear some responsibility for improving that system.

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[27] This part of CAR's proposal received the affirmative vote of twelve of thirteen Governing Committee members, with Mr. Perrin of Aetna abstaining for the reasons set forth in footnote 4 above.

By virtue of the participation in CAR by all members of the insurance industry -- both insurers and producers -- and by virtue of CAR's mandate to operate the involuntary market in the public interest, CAR is in a unique position to offer proposals representing what CAR believes to be the fairest and most reasonable way in which to address the problems that prompted the enactment of Section 66. CAR therefore urges that the Commissioner adopt the recommendations set forth above.

ANALYSIS OF CEDED MARKET
POLICY YEARS 1984 - 1989 AT 12 MONTHS

	PRIVATE PASSENGER Exposures (Car Years)	PRIVATE PASSENGER Percent For Year	COMMERCIAL Written Premium	COMMERCIAL Percent For Year
		POLICY YEAR 1984		
INVOLUNTARY CEDED				
Agent Writer ID3	356,032	11.9%	18,794,278	6.6%
Direct Writer ID3	105,373	3.5%	3,658,833	1.3%
ID3 Subtotal	461,405	15.5%	22,453,111	7.9%
Agent Writer ID4	43,978	1.5%	1,800,698	0.6%
Direct Writer ID4	1,981	0.1%	43,534	0.0%
ID4 Subtotal	45,959	1.5%	1,844,232	0.7%
A.W. Subtotal	400,010	13.4%	20,594,976	7.3%
D.W. Subtotal	107,354	3.6%	3,702,367	1.3%
Total	507,364	17.0%	24,297,343	8.6%
VOLUNTARY CEDED				
Agent Writer ID4	684,444	22.9%	61,675,110	21.8%
Direct Writer ID4	170,746	5.7%	4,785,554	1.7%
Total	855,190	28.6%	66,460,664	23.5%
VOLUNTARY RETAINED	1,623,600	54.4%	191,992,421	67.9%
TOTAL	2,986,154	100.0%	282,750,428	100.0%
		POLICY YEAR 1985		
INVOLUNTARY CEDED				
Agent Writer ID3	377,702	12.1%	20,967,496	5.9%
Direct Writer ID3	117,851	3.8%	8,206,897	2.3%
ID3 Subtotal	495,553	15.9%	29,174,393	8.2%
Agent Writer ID4	81,799	2.6%	5,397,783	1.5%
Direct Writer ID4	9,064	0.3%	1,400,163	0.4%
ID4 Subtotal	90,863	2.9%	6,797,946	1.9%
A.W. Subtotal	459,501	14.8%	26,365,279	7.4%
D.W. Subtotal	126,915	4.1%	9,607,060	2.7%
Total	586,416	18.8%	35,972,339	10.2%
VOLUNTARY CEDED				
Agent Writer ID4	771,102	24.8%	120,368,720	34.0%
Direct Writer ID4	182,435	5.9%	6,126,401	1.7%
Total	953,537	30.6%	126,495,121	35.7%
VOLUNTARY RETAINED	1,572,940	50.5%	191,902,214	54.2%
TOTAL	3,112,893	100.0%	354,369,674	100.0%

ANALYSIS OF CE. . .OKET
POLICY YEARS 1984 - 1989 AT 12 MONTHS

	PRIVATE PASSENGER Exposures (Car Years)	Percent Per Year	COMMERCIAL Written Premium	Percent Per Year
		POLICY YEAR 1986		
INVOLUNTARY CEDED				
Agent Writer ID3	402,093	12.4%	27,846,588	6.3%
Direct Writer ID3	130,790	4.0%	10,115,090	2.3%
ID3 Subtotal	532,883	16.5%	37,961,678	8.6%
Agent Writer ID4	110,474	3.4%	16,344,491	3.7%
Direct Writer ID4	17,240	0.5%	1,597,609	0.4%
ID4 Subtotal	127,714	4.0%	17,942,100	4.1%
A.W. Subtotal	512,567	15.9%	44,191,079	10.0%
D.W. Subtotal	148,030	4.6%	11,712,699	2.6%
Total	660,597	20.4%	55,903,778	12.6%
VOLUNTARY CEDED				
Agent Writer ID4	905,394	28.0%	206,404,356	46.7%
Direct Writer ID4	206,836	6.4%	8,667,834	2.0%
Total	1,112,230	34.4%	215,072,190	48.6%
VOLUNTARY RETAINED	1,458,152	45.1%	171,316,317	38.7%
TOTAL	3,230,979	100.0%	442,292,285	100.0%
		POLICY YEAR 1987		
INVOLUNTARY CEDED				
Agent Writer ID3	427,205	12.8%	36,106,229	7.1%
Direct Writer ID3	139,400	4.2%	12,215,639	2.4%
ID3 Subtotal	566,605	16.9%	48,321,868	9.5%
Agent Writer ID4	162,521	4.9%	23,481,854	4.6%
Direct Writer ID4	23,058	0.7%	3,159,976	0.6%
ID4 Subtotal	185,579	5.5%	26,641,830	5.3%
A.W. Subtotal	589,726	17.6%	59,588,083	11.7%
D.W. Subtotal	162,458	4.9%	15,375,615	3.0%
Total	752,184	22.5%	74,963,698	14.8%
VOLUNTARY CEDED				
Agent Writer ID4	973,636	29.1%	267,921,819	52.8%
Direct Writer ID4	246,686	7.4%	11,664,278	2.3%
Total	1,220,322	36.5%	279,586,097	55.1%
VOLUNTARY RETAINED	1,371,461	41.0%	152,701,844	30.1%
TOTAL	3,343,967	100.0%	507,251,639	100.0%

ANALYSIS OF [illegible] MARKET
POLICY YEARS 1984 - 1989 AT 12 MONTHS

	PRIVATE PASSENGER Exposures (Car Years)	PRIVATE PASSENGER Percent For Year	COMMERCIAL Written Premium	COMMERCIAL Percent For Year
		POLICY YEAR 1988		
INVOLUNTARY CEDED				
Agent Writer ID3	442,579	13.0%	44,018,942	7.7%
Direct Writer ID3	144,749	4.3%	13,940,299	2.5%
ID3 Subtotal	587,328	17.3%	57,959,241	10.2%
Agent Writer ID4	178,680	5.3%	27,138,591	4.8%
Direct Writer ID4	20,326	0.6%	2,129,216	0.4%
ID4 Subtotal	199,006	5.9%	29,267,807	5.2%
A.W. Subtotal	621,259	18.3%	71,157,533	12.5%
D.W. Subtotal	165,075	4.9%	16,069,515	2.8%
Total	786,334	23.2%	87,227,048	15.3%
VOLUNTARY CEDED				
Agent Writer ID4	1,066,588	31.4%	316,552,433	55.7%
Direct Writer ID4	319,727	9.4%	13,384,643	2.4%
Total	1,386,315	40.9%	329,937,076	58.1%
VOLUNTARY RETAINED	1,219,997	36.0%	151,093,604	26.6%
TOTAL	3,392,646	100.0%	568,257,728	100.0%
		POLICY YEAR 1989 (as of 03/89 shipment)		
INVOLUNTARY CEDED				
Agent Writer ID3	111,568	10.1%	5,282,535	5.9%
Direct Writer ID3	32,159	2.9%	2,948,753	3.3%
ID3 Subtotal	143,727	13.0%	8,231,288	9.3%
Agent Writer ID5+6+9	72,321	6.5%	6,130,555	6.9%
Direct Writer ID5+6+9	12,335	1.1%	1,670,556	1.9%
ID5+6+9 Subtotal	84,656	7.6%	7,801,111	8.8%
A.W. Subtotal	183,889	16.6%	11,413,090	12.8%
D.W. Subtotal	44,494	4.0%	4,619,309	5.2%
Total	228,383	20.6%	16,032,399	18.0%
VOLUNTARY CEDED				
Agent Writer ID4	316,745	28.5%	34,581,691	38.9%
Direct Writer ID4	82,016	7.4%	1,653,330	1.9%
Total	398,761	35.9%	36,235,021	40.7%
VOLUNTARY RETAINED	482,618	43.5%	36,679,736	41.2%
TOTAL	1,109,762	100.0%	88,947,156	100.0%

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RAYMOND M LaFONTAINE
President

MICHAEL J TROVATO
Executive Vice President
and Treasurer

Bulletin No. 262

June 27, 1989

DEPOPULATION ADVISORY COMMITTEE ACTIONS

The C.A.R. Governing Committee established, in response to the "Insurance Reform Legislation", a Depopulation Advisory Committee to consider and make recommendations as to the depopulation of risks ceded to C.A.R. The Depopulation Advisory Committee has met on numerous occasions, most recently on June 20, 1989. At that meeting, the Committee voted to continue discussion of the following concepts as a means of depopulating the residual market:

1. Distribute to all interested carriers a listing of, involuntary assigned producers, Exclusive Representative Producers displaying the producer's volume of business, loss frequency, loss ratios, and policy cancellation or other transaction ratios, separately for private passenger and commercial business, for the last five years. Some of these data elements would be broken down by rating territory or town if feasible. It is the Committee's expectation that distribution of this type of information may cause companies to voluntarily contract with these producers for the purpose of writing business in the voluntary market, thereby reducing the size of the residual market.

2. Reexamination of the ceding expense allowances paid on all ceded business, with the objective of developing a sliding scale of ceding expense allowances based on claim frequency and possibly the frequency of other policy transactions.

3. Explore the feasibility of providing participation credits for involuntary assigned Exclusive Representative Producer policies taken out of C.A.R., as a means of reducing the number of ceded policies.

4. Explore the feasibility of introducing cession limitations on voluntarily ceded private passenger business in oroer to achieve a significant reduction in the number of policies ceded to C.A.R.

DEPOPULATION ADVISORY COMMITTEE ACTIONS (Cont.)

5. Amend M.G.L., Chapter 175, Section 113H, to provide that a broker making application for appointment to a Servicing Carrier must satisfy the Governing Committee that they have successfully completed a course of study concentrating on the Massachusetts auto insurance system offered by an industry sponsored organization, and that they have worked for at least six months with a licensed agent or with a Massachusetts automobile insurer, during which time the applicant has devoted the majority of their efforts to the Massachusetts motor vehicle market. The Committee will determine the feasibility of whether an applicant may be denied assignment where the particular location of the agency has not exhibited a market need for additional Exclusive Representative Producers.

6. Study of the concept of implementing a two-tier rate structure consisting of a "clean" and a "dirty" rate, to be applied based on the individual's driving record.

7. Appoint all companies licensed to write automobile insurance in Massachusetts as C.A.R. Servicing Carriers. A company not wanting to serve as a Servicing Carrier could elect to contract with another Servicing Carrier to fulfill its Servicing Carrier obligations or, alternatively, to "buy-out" of its Servicing Carrier obligations by paying an agreed upon fee to C.A.R.

The Committee also noted the importance of adequate private passenger rates being established by the Commissioner of Insurance as a means to encourage the industry to depopulate the residual market.

Any interested party wanting to comment on the Committee's proposals for depopulation or to suggest additional methods is invited to attend the next meeting of the Depopulation Advisory Committee to be held at the office of C.A.R., on July 11, 1989, at 10:00 A.M. Note that, if necessary, this meeting will be continued on July 12 1989, at 9:00 A.M. Comments and suggestions may also be submitted in writing to C.A.R., for distribution to the Committee.

DANA I. JEWELL

Administrative Vice President
and Secretary

(C)

CAR
GOVERNING
COMMITTEE

STATUS REPORT*

July 21, 1989

* Amended based on discussions at the July 19, 1989 Governing Committee Meeting

CAR
GOVERNING
COMMITTEE

Contents

- Description of Model
- "Baseline" assumptions
- Review of Depopulation Issues
  - summary of issues
  - adjustments to "Baseline" assumptions
  - estimated impact of entire package
  - estimated impact by issue
- Sensitivity Analysis
- Next steps

CAR
GOVERNING COMMITTEE

Description of Model

1. Data Elements Included by Company/Group
   - o Calendar Year Written Exposures by CAR ID Code.
   - o Calendar Year Written Premium by CAR ID Code.
   - o Accident Year Reported Incurred Losses by CAR ID Code (Evaluated as of 15 months).
   - o Credits Taken by Credit Category (i.e., territory and youthful male).
   - o Credits Not Taken by Credit Category.
   - o AM Best's Data
     - Massachusetts Private Passenger Auto
     - Massachusetts Homeowners
     - Massachusetts All Lines Combined
     - Countrywide All Lines Combined
     - Policyholders' Surplus

2. Years Included
   - o CAR Data: Generally 1982 - 1987
     - Losses included for 1986 and 1987 only
     - Ceded Physical Damage Exposures for 1986 and 1987 only
   - o Best's Data
     - 1986 and 1987 only.

3. Structure
   - o Exposure and Credit Module
   - o Premium Module
   - o Loss Module
   - o Expense Module
   - o Participation Ratio Module

Description of Model (Continued)

4. CAR ID Code 04 split into ERP's and other than ERP's

5. Separate exposure, premium, loss and expense assumptions for
   - o ID Code 00
   - o ID Code 04 ERP, ceded
   - o ID Code 04 ERP, written voluntarily (if applicable)
   - o ID Code 04 O/T ERP, ceded
   - o ID Code 04 O/T ERP, written voluntarily
   - o ID Code 03, ceded
   - o ID Code 03, written voluntarily (if applicable)

CAR
GOVERNING COMMITTEE

"Baseline" Assumptions - 80% Loss Ratio

Item	1989	1990	1991	1992	1993
Exposure Growth					
. Total Market	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%
. ID 04 ERP's	+7.5%	+5.0%	+5.0%	+5.0%	+5.0%
. ID 03 ERP's	+5.0%	+5.0%	+5.0%	+5.0%	+5.0%
Cession Caps	-	no	no	no	no
Cession Rate - Incl. ERP's	65.0%	65.2%	65.4%	65.6%	65.9%
Cession Rate - Excl. ERP's	54.3%	54.3%	54.3%	54.3%	54.3%
ERP Take-Outs?	-	no	no	no	no
Avg. Premium per Expos. Growth					
. ID 00's	-9%	+7%	+7%	+7%	+7%
. ID 04 O/T ERP's	-9%	+7%	+7%	+7%	+7%
. ID 04 ERP's	-9%	+7%	+7%	+7%	+7%
. ID 03 ERP's	-9%	+7%	+7%	+7%	+7%
Add'l Rate Change Effects	-	none	none	none	none
Preliminary Loss & ALAE Ratio					
. ID 00's	50%	50%	50%	50%	50%
. ID 04 O/T ERP's	82%	82%	82%	82%	82%
. ID 04 ERP's	99%	99%	99%	99%	99%
. ID 03 ERP's	118%	118%	118%	118%	118%
Expense Ratio					
. ID 00's	32%	32%	32%	32%	32%
. ID 04 O/T ERP's	32%	32%	32%	32%	32%
. ID 04 ERP's	32%	32%	32%	32%	32%
. ID 03 ERP's	48%	48%	48%	48%	48%

"Take-Out" Loss Ratio

ID Code 03 ERP's: Sliding scale between average voluntary and ERP loss ratios for 10% take-outs to ERP loss ratios for 100% take-outs.

ID Code 04: Sliding scale runs from voluntary loss ratio for 10% take-outs to ID Code 04 loss ratio for 100% take-outs.

CAR
GOVERNING COMMITTEE

"Baseline" Assumptions - 75% Loss Ratio

Item	1989	1990	1991	1992	1993
Exposure Growth					
. Total Market	+3.0%	+3.0%	+3.0%	+3.0%	+3.0%
. ID 04 ERP's	+7.5%	+5.0%	+5.0%	+5.0%	+5.0%
. ID 03 ERP's	+5.0%	+5.0%	+5.0%	+5.0%	+5.0%
Cession Caps	-	no	no	no	no
Cession Rate - Incl. ERP's	65.0%	65.2%	65.4%	65.6%	65.9%
Cession Rate - Excl. ERP's	54.3%	54.3%	54.3%	54.3%	54.3%
ERP Take-Outs?	-	no	no	no	no
Avg. Premium per Expos. Growth					
. ID 00's	-9%	+7%	+7%	+7%	+7%
. ID 04 O/T ERP's	-9%	+7%	+7%	+7%	+7%
. ID 04 ERP's	-9%	+7%	+7%	+7%	+7%
. ID 03 ERP's	-9%	+7%	+7%	+7%	+7%
Add'l Rate Change Effects	-	none	none	none	none
Preliminary Loss & ALAE Ratio					
. ID 00's	46%	46%	46%	46%	46%
. ID 04 O/T ERP's	78%	78%	78%	78%	78%
. ID 04 ERP's	93%	93%	93%	93%	93%
. ID 03 ERP's	112%	112%	112%	112%	112%
Expense Ratio					
. ID 00's	32%	32%	32%	32%	32%
. ID 04 O/T ERP's	32%	32%	32%	32%	32%
. ID 04 ERP's	32%	32%	32%	32%	32%
. ID 03 ERP's	48%	48%	48%	48%	48%

"Take-Out" Loss Ratio

ID Code 03 ERP's: Sliding scale between average voluntary and ERP loss ratios for 10% take-outs to ERP loss ratios for 100% take-outs.

ID Code 04: Sliding scale runs from voluntary loss ratio for 10% take-outs to ID Code 04 loss ratio for 100% take-outs.

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Review of Depopulation Issues-Summary

- Cession Limitations
- Adjustment to Expense Allowance
- ERP Listing
- Additional Class Credits
- ERP Assignment Process
- Two-tier Rate Structure

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Review of Depopulation Issues
Adjustments
to "Baseline" Assumptions

Items	Adjustments
. Cession Limitations	Assume Cession Caps of

	Excl. ERP's
1990	55%
1991	45%
1992	35%
1993	25%

. Adjustments to Expense Allowance	Assume . Average Ceded Expense Allowance reduced to 35.5% . Apply same allowance to all involuntary business
. ERP Listing . Additional Class Credits	Assume that 20% of ID 04 ERP's and ID 03 ERP's are taken-out in 1990, 1991, 1992 and 1993.
. ERP Assignment Process	Assume ERP exposures grow at total market rate for 1990, 1991, 1992 and 1993.
. Two-Tier Rate Structure	Assume "rate level increases" in 1990

ID 00	-2.0%
ID 04 O/T ERP	+0.5%
ID 04 & 03 ERP's	+3.0%
S/W Effect	NC

COMMONWEALTH AUTOMOBILE REINSURERS and
MASSACHUSETTS DIVISION OF INSURANCE
Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

Exhibit I

Basic Model with
80% Loss Ratio

PROJECTED RESULTS BY MARKET SEGMENT
(Dollars in Thousands)

	Calendar Year	Estimated Total Market	Ratio to Premiums	Voluntary Market Vol	ERP Retained	Total	Ratio to Premiums	Ceded Market Vol Ceded	ERP Ceded	Total	Ratio to Premiums
Expos	1987	3,311,206	NA	1,361,990	0	1,361,990	NA	1,219,366	729,850	1,949,216	NA
	1988	3,355,179	NA	1,208,404	0	1,208,404	NA	1,382,742	764,033	2,146,775	NA
	1989	3,455,834	NA	1,209,542	0	1,209,542	NA	1,439,188	807,104	2,246,292	NA
	1990	3,559,509	NA	1,467,849	166,263	1,634,112	NA	1,260,343	665,054	1,925,397	NA
	1991	3,666,295	NA	1,690,949	171,251	1,862,200	NA	1,119,089	685,005	1,804,094	NA
	1992	3,776,283	NA	1,978,807	176,389	2,155,196	NA	915,532	705,555	1,621,087	NA
	1993	3,889,572	NA	2,301,070	181,681	2,482,750	NA	680,099	726,722	1,406,822	NA
Prems	1987	$2,265,189	100%	$817,194	$0	$817,194	100%	$905,818	$542,176	$1,447,995	100%
	1988	2,524,797	100%	795,729	0	795,729	100%	1,106,773	622,296	1,729,069	100%
	1989	2,366,493	100%	723,406	0	723,406	100%	1,046,345	596,741	1,643,086	100%
	1990	2,608,111	100%	951,444	129,020	1,080,464	100%	985,764	541,883	1,527,648	100%
	1991	2,874,400	100%	1,196,310	142,374	1,338,684	100%	937,746	597,970	1,535,716	100%
	1992	3,167,876	100%	1,528,383	157,167	1,685,550	100%	822,222	660,103	1,482,325	100%
	1993	3,491,316	100%	1,934,314	173,520	2,107,835	100%	654,695	728,786	1,383,481	100%
Losses & ALAE	1987	$1,792,880	79%	$408,597	$0	$408,597	50%	$865,962	$518,321	$1,384,283	96%
	1988	2,059,127	82%	397,864	0	397,864	50%	1,001,630	659,633	1,661,263	96%
	1989	1,893,194	80%	352,090	0	352,090	49%	865,632	675,472	1,541,104	94%
	1990	2,086,489	80%	477,896	104,482	582,379	54%	866,276	637,835	1,504,110	98%
	1991	2,299,520	80%	626,487	115,150	741,637	55%	854,924	702,959	1,557,883	101%
	1992	2,534,301	80%	833,487	126,907	960,394	57%	799,175	774,732	1,573,907	106%
	1993	2,793,053	80%	1,136,068	139,865	1,275,932	61%	663,287	853,833	1,517,120	110%
Net Other Costs	1987	$820,705	36%	$281,932	$0	$281,932	35%	$312,507	$226,265	$538,773	37%
	1988	852,076	34%	254,633	0	254,633	32%	354,167	243,276	597,443	35%
	1989	757,278	32%	160,377	0	160,377	22%	334,830	262,070	596,901	36%
	1990	834,596	32%	251,798	46,647	298,446	28%	348,967	187,183	536,150	35%
	1991	919,808	32%	330,508	51,414	381,923	29%	331,574	206,312	537,885	35%
	1992	1,013,720	32%	439,369	56,670	496,038	29%	290,281	227,401	517,682	35%
	1993	1,117,221	32%	573,355	62,463	635,817	30%	230,755	250,648	481,404	35%
Estim U/W Gain/ (Loss)	1987	($348,396)	-15%	$126,665	$0	$126,665	16%	($272,651)	($202,410)	($475,061)	-33%
	1988	(386,406)	-15%	143,231	0	143,231	18%	(249,024)	(280,613)	(529,637)	-31%
	1989	(283,979)	-12%	210,939	0	210,939	29%	(154,117)	(340,801)	(494,918)	-30%
	1990	(312,973)	-12%	221,749	(22,110)	199,639	18%	(229,478)	(283,135)	(512,613)	-34%
	1991	(344,928)	-12%	239,315	(24,191)	215,124	16%	(248,751)	(311,301)	(560,052)	-36%
	1992	(380,145)	-12%	255,528	(26,409)	229,118	14%	(267,234)	(342,030)	(609,264)	-41%
	1993	(418,958)	-12%	224,892	(28,807)	196,085	9%	(239,347)	(375,696)	(615,043)	-44%

ASSUMPTIONS:

		1988	1989	1990	1991	1992	1993
Exposure Growth	Total Market	1.3%	3.0%	3.0%	3.0%	3.0%	3.0%
	03 ERP	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%
	04 ERP	7.5%	7.5%	3.0%	3.0%	3.0%	3.0%
Cession Rate	Cession Caps	NA	NA	55.0%	45.0%	35.0%	25.0%
	Including ERP's	64.0%	65.0%	54.1%	49.2%	42.9%	36.2%
	Excluding ERP's	53.4%	54.3%	40.1%	33.7%	25.5%	16.7%
Take-outs	03 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
	04 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
Avg Premium Growth	00	10.0%	-9.0%	5.0%	7.1%	7.2%	7.2%
	04 O/T ERP	10.0%	-9.0%	7.6%	7.1%	7.2%	7.2%
	04 ERP	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
	03	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
Loss Ratio	00	50.0%	50.0%	51.0%	50.9%	50.8%	50.7%
	04 O/T ERP	95.6%	90.5%	81.6%	81.5%	81.3%	81.2%
	04 ERP	95.6%	106.0%	95.6%	95.5%	95.4%	95.2%
	03	95.6%	106.0%	114.6%	114.4%	114.2%	114.0%
Expense Ratio	00	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
	04 O/T ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	04 ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	03	41.5%	48.0%	35.5%	35.5%	35.5%	35.5%

COMMONWEALTH AUTOMOBILE REINSURERS and
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Exhibit I

Basic Model with
75% Loss Ratio

PROJECTED RESULTS BY MARKET SEGMENT
(Dollars in Thousands)

	Calendar Year	Estimated Total Market	Ratio to Premiums	Voluntary Market Vol	Voluntary Market ERP Retained	Voluntary Market Total	Voluntary Market Ratio to Premiums	Ceded Market Vol Ceded	Ceded Market ERP Ceded	Ceded Market Total	Ceded Market Ratio to Premiums
Expos	1987	3,311,206	NA	1,361,990	0	1,361,990	NA	1,219,366	729,850	1,949,216	NA
	1988	3,[illegible]5,179	NA	1,208,404	0	1,208,404	NA	1,382,742	764,033	2,146,775	NA
	1989	3,[illegible]5,834	NA	1,209,542	0	1,209,542	NA	1,439,188	807,104	2,246,292	NA
	1990	3,559,509	NA	1,467,849	166,263	1,634,112	NA	1,260,343	665,054	1,925,397	NA
	1991	3,666,295	NA	1,690,949	171,251	1,862,200	NA	1,119,089	685,005	1,804,094	NA
	1992	3,776,283	NA	1,978,807	176,389	2,155,196	NA	915,532	705,555	1,621,087	NA
	1993	3,889,572	NA	2,301,070	181,681	2,482,750	NA	680,099	726,722	1,406,822	NA
Prems	1987	$2,265,189	100%	$817,194	$0	$817,194	100%	$905,818	$542,176	$1,447,995	100%
	1988	2,524,797	100%	795,729	0	795,729	100%	1,106,773	622,296	1,729,069	100%
	1989	2,366,493	100%	723,406	0	723,406	100%	1,046,345	596,741	1,643,086	100%
	1990	2,608,111	100%	951,444	129,020	1,080,464	100%	985,764	541,883	1,527,648	100%
	1991	2,874,400	100%	1,196,310	142,374	1,338,684	100%	937,746	597,970	1,535,716	100%
	1992	3,167,876	100%	1,528,383	157,167	1,685,550	100%	822,222	660,103	1,482,325	100%
	1993	3,491,316	100%	1,934,314	173,520	2,107,835	100%	654,695	728,786	1,383,481	100%
Losses & ALAE	1987	$1,792,880	79%	$408,597	$0	$408,597	50%	$865,962	$518,321	$1,384,283	96%
	1988	2,059,127	82%	397,864	0	397,864	50%	1,001,630	659,633	1,661,263	96%
	1989	1,774,869	75%	318,151	0	318,151	44%	818,546	638,173	1,456,719	89%
	1990	1,956,084	75%	432,664	97,437	530,100	49%	822,155	603,829	1,425,984	93%
	1991	2,155,800	75%	569,929	107,385	677,314	51%	813,006	665,480	1,478,486	96%
	1992	2,375,907	75%	761,650	118,349	879,999	52%	762,481	733,427	1,495,908	101%
	1993	2,618,487	75%	1,045,622	130,433	1,176,055	56%	634,121	808,311	1,442,432	104%
Net Other Costs	1987	$820,705	36%	$281,932	$0	$281,932	35%	$312,507	$226,265	$538,773	37%
	1988	852,076	34%	254,633	0	254,633	32%	354,167	243,276	597,443	35%
	1989	757,278	32%	160,377	0	160,377	22%	334,830	262,070	596,901	36%
	1990	834,596	32%	251,798	46,647	298,446	28%	348,967	187,183	536,150	35%
	1991	919,808	32%	330,508	51,414	381,923	29%	331,574	206,312	537,885	35%
	1992	1,013,720	32%	439,369	56,670	496,038	29%	290,281	227,401	517,682	35%
	1993	1,117,221	32%	573,355	62,463	635,817	30%	230,755	250,648	481,404	35%
Estim U/W Gain/ (Loss)	1987	($348,396)	-15%	$126,665	$0	$126,665	16%	($272,651)	($202,410)	($475,061)	-33%
	1988	(386,406)	-15%	143,231	0	143,231	18%	(249,024)	(280,613)	(529,637)	-31%
	1989	(165,654)	-7%	244,879	0	244,879	34%	(107,031)	(303,502)	(410,533)	-25%
	1990	(182,568)	-7%	266,982	(15,064)	251,918	23%	(185,358)	(249,128)	(434,486)	-28%
	1991	(201,208)	-7%	295,873	(16,425)	279,448	21%	(206,833)	(273,822)	(480,656)	-31%
	1992	(221,751)	-7%	327,365	(17,851)	309,514	18%	(230,540)	(300,725)	(531,265)	-36%
	1993	(244,392)	-7%	315,338	(19,375)	295,963	14%	(210,181)	(330,174)	(540,355)	-39%

ASSUMPTIONS:

		1988	1989	1990	1991	1992	1993
Exposure Growth	Total Market	1.3%	3.0%	3.0%	3.0%	3.0%	3.0%
	03 ERP	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%
	04 ERP	7.5%	7.5%	3.0%	3.0%	3.0%	3.0%
Cession Rate	Cession Caps	NA	NA	55.0%	45.0%	35.0%	25.0%
	Including ERP's	64.0%	65.0%	54.1%	49.2%	42.9%	36.2%
	Excluding ERP's	53.4%	54.3%	40.1%	33.7%	25.5%	16 7%
Take-outs	03 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
	04 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
Avg Premium Growth	00	10.0%	-9.0%	5.0%	7.1%	7.2%	7.2%
	04 O/T ERP	10.0%	-9.0%	7.6%	7.1%	7.2%	7.2%
	04 ERP	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
	03	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
Loss Ratio	00	50.0%	50.0%	46.4%	46.3%	46.3%	46.2%
	04 O/T ERP	95.6%	90.5%	77.1%	77.0%	76.9%	76.7%
	04 ERP	95.6%	106.0%	90.3%	90.2%	90.0%	89.9%
	03	95.6%	106.0%	108.3%	108.1%	107.9%	107.8%
Expense Ratio	00	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
	04 O/T ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	04 ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	03	41.5%	48.0%	35.5%	35.5%	35.5%	35.5%

COMMONWEALTH AUTOMOBILE REINSURERS and
MASSACHUSETTS DIVISION OF INSURANCE
Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

Exhibit 2

Basic Model with
80% Loss Ratio

PROJECTED CAR RESULTS
(Dollars in Thousands)

Calendar Year	Cession Rate: ERP's Included	Cession Rate: ERP's Excluded	Estimated CAR Deficit	Estimated CAR Deficit as % of Vol Prem	Estimated Voluntary Loss Ratio
1987	58.9%	47.2%	$475,061	58.1%	80.0%
1988	64.0%	53.4%	529,637	66.6%	80.0%
1989	65.0%	54.3%	494,918	68.4%	78.7%
1990	54.1%	40.1%	512,613	47.4%	83.9%
1991	49.2%	33.7%	560,052	41.8%	85.4%
1992	42.9%	25.5%	609,264	36.1%	87.0%
1993	36.2%	16.7%	615,043	29.2%	90.5%

Calendar Year	CAR Loss Ratio	CAR Avg Ceding Expense Allowance	CAR Combined Ratio
1987	95.6%	37.2%	132.8%
1988	96.1%	34.6%	130.6%
1989	93.8%	36.3%	130.1%
1990	98.5%	35.1%	133.6%
1991	101.4%	35.0%	136.5%
1992	106.2%	34.9%	141.1%
1993	109.7%	34.8%	144.5%

ASSUMPTIONS:		1988	1989	1990	1991	1992	1993
Exposure Growth	Total Market	1.3%	3.0%	3.0%	3.0%	3.0%	3.0%
	03 ERP	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%
	04 ERP	7.5%	7.5%	3.0%	3.0%	3.0%	3.0%
Cession Rate	Cession Caps	NA	NA	55.0%	45.0%	35.0%	25.0%
	Including ERP's	64.0%	65.0%	54.1%	49.2%	42.9%	36.2%
	Excluding ERP's	53.4%	54.3%	40.1%	33.7%	25.5%	16.7%
Take-outs	03 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
	04 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
Avg Premium Growth	00	10.0%	-9.0%	5.0%	7.1%	7.2%	7.2%
	04 O/T ERP	10.0%	-9.0%	7.6%	7.1%	7.2%	7.2%
	04 ERP	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
	03	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
Loss Ratio	00	80.0%	80.0%	81.0%	80.9%	80.8%	80.7%
	04 O/T ERP	95.6%	90.5%	81.6%	81.5%	81.3%	81.2%
	04 ERP	95.6%	106.0%	95.6%	95.5%	95.4%	95.2%
	03	95.6%	106.0%	114.6%	114.4%	114.2%	114.0%
Expense Ratio	00	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
	04 O/T ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	04 ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	03	41.5%	48.0%	35.5%	35.5%	35.5%	35.5%

COMMONWEALTH AUTOMOBILE REINSURERS and
MASSACHUSETTS DIVISION OF INSURANCE
Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

Exhibit 2
Basic Model with
75% Loss Ratio

PROJECTED CAR RESULTS
(Dollars in Thousands)

Calendar Year	Cession Rate: ERP's Included	Cession Rate: ERP's Excluded	Estimated CAR Deficit	Estimated CAR Deficit as % of Vol Prem	Estimated Voluntary Loss Ratio
1987	58.9%	47.2%	$475,061	58.1%	50.0%
1988	64.0%	53.4%	529,637	66.6%	50.0%
1989	65.0%	54.3%	410,533	56.8%	44.0%
1990	54.1%	40.1%	434,486	60.2%	49.1%
1991	49.2%	33.7%	480,656	35.9%	50.6%
1992	42.9%	25.5%	531,265	31.5%	52.2%
1993	36.2%	16.7%	540,355	25.6%	55.8%

Calendar Year	CAR Loss Ratio	CAR Avg Ceding Expense Allowance	CAR Combined Ratio
1987	95.6%	37.2%	132.8%
1988	96.1%	34.6%	130.6%
1989	88.7%	36.3%	125.0%
1990	93.3%	35.1%	128.4%
1991	96.3%	35.0%	131.3%
1992	100.9%	34.9%	135.8%
1993	104.3%	34.8%	139.1%

ASSUMPTIONS:		1988	1989	1990	1991	1992	1993
Exposure Growth	Total Market	1.3%	3.0%	3.0%	3.0%	3.0%	3.0%
	03 ERP	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%
	04 ERP	7.5%	7.5%	3.0%	3.0%	3.0%	3.0%
Cession Rate	Cession Caps	NA	NA	55.0%	45.0%	35.0%	25.0%
	Including ERP's	64.0%	65.0%	54.1%	49.2%	42.9%	36.2%
	Excluding ERP's	53.4%	54.3%	40.1%	33.7%	25.5%	16.7%
Take-outs	03 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
	04 ERP Take-outs	NA	NA	20.0%	20.0%	20.0%	20.0%
Avg Premium Growth	00	10.0%	-9.0%	5.0%	7.1%	7.2%	7.2%
	04 O/T ERP	10.0%	-9.0%	7.6%	7.1%	7.2%	7.2%
	04 ERP	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
	03	10.0%	-9.0%	10.2%	7.1%	7.2%	7.2%
Loss Ratio	00	50.0%	50.0%	46.4%	46.3%	46.3%	46.2%
	04 O/T ERP	95.6%	90.5%	77.1%	77.0%	76.9%	76.7%
	04 ERP	95.6%	106.0%	90.3%	90.2%	90.0%	89.9%
	03	95.6%	106.0%	108.3%	108.1%	107.9%	107.8%
Expense Ratio	00	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
	04 O/T ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	04 ERP	32.0%	32.0%	35.5%	35.5%	35.5%	35.5%
	03	41.5%	48.0%	35.5%	35.5%	35.5%	35.5%

COMMONWEALTH AUTOMOBILE REINSURERS
and MASSACHUSETTS DIVISION OF INSURANCE

Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

REVIEW OF ISSUES ADDRESSED AT JULY 11, 1989 MEETING
ESTIMATED IMPACT BY ISSUE

Issues Included	Year	80% Loss Ratio Basic Model: Est'd CAR Deficit ($Mill)	80% Loss Ratio Basic Model: Deficit as % of Vol Premium	80% Loss Ratio Basic Model: Vol Loss Ratio	75% Loss Ratio Basic Model: Est'd CAR Deficit ($Mill)	75% Loss Ratio Basic Model: Deficit as % of Vol Premium	75% Loss Ratio Basic Model: Vol Loss Ratio
"Baseline"	1990	$551.7	69.6%	48.0%	$458.3	57.8%	43.3%
	1991	615.1	70.9%	47.2%	511.6	58.9%	42.6%
	1992	685.8	72.1%	46.5%	571.3	60.1%	41.8%
	1993	764.8	73.4%	45.7%	637.9	61.3%	41.1%
1. Cession Limits	1990	$576.4	59.8%	49.0%	$490.7	50.9%	44.3%
	1991	651.1	54.1%	50.0%	562.8	46.7%	45.4%
	1992	726.6	47.6%	51.9%	638.0	41.8%	47.3%
	1993	763.1	39.8%	56.0%	675.6	35.3%	51.4%
2. #1, plus Involuntary Expense Reimbursement	1990	$554.9	57.5%	49.0%	$469.2	48.6%	44.3%
	1991	620.7	51.5%	50.0%	532.3	44.2%	45.4%
	1992	684.0	44.8%	51.9%	595.3	39.0%	47.3%
	1993	705.6	36.8%	56.0%	618.1	32.3%	51.4%
3. #2, plus ERP Take-outs & Credits	1990	$534.9	48.7%	52.7%	$456.3	41.5%	48.2%
	1991	598.2	44.2%	53.3%	517.9	38.2%	48.3%
	1992	658.7	38.9%	54.7%	579.1	34.2%	50.0%
	1993	677.2	32.2%	58.1%	599.8	28.5%	53.5%
4. #3, plus ERP Assignment Process	1990	$536.7	48.7%	52.6%	$458.5	41.6%	47.8%
	1991	588.3	43.2%	54.1%	508.8	37.3%	49.4%
	1992	642.2	37.5%	55.7%	564.1	32.9%	51.0%
	1993	651.4	30.5%	59.4%	576.6	27.0%	54.7%
5. #4, plus Two-Tier Rate Structure (Entire Package)	1990	$512.6	47.4%	53.9%	$434.5	40.2%	49.1%
	1991	560.1	41.8%	55.4%	480.7	35.9%	50.6%
	1992	609.3	36.1%	57.0%	531.3	31.5%	52.2%
	1993	615.0	29.2%	60.5%	540.4	25.6%	55.8%

CAR
GOVERNING COMMITTEE

Sensitivity Analysis

- Changes to adjustments to baseline assumptions to reflect Depopulation Issues
  - Smaller effect on deficit
  - Larger effect on deficit

- Changes to key basic model assumptions
  - More aggressive cession caps
  - Take-out loss ratios

CAR
GOVERNING COMMITTEE

Changes to Baseline Adjustments
- Smaller Deficit Effect -

Items	Adjustments
. Cession Limitations	Assume same caps as middle deficit effect
. Adjustment to Expense Allowance	Assume no reduction in ceded expense reimbursement (35.5% allowance for middle effect).
. ERP Listing . Additional Class Credits	Assume that 10% of ERP's are taken out (was 20%)
. ERP Assignment Process	Assume ERP's grow at 5% for 1990 - 1993 (was 3% for previous scenario)
. Two-Tier Rate Structure	Assume "rate level increases" in 1990 ID 00 -1.0% ID 04 O/T ERP NC ID 04 & 03 ERP's +1.5% S/W Effect NC Previously set at -2.0%, +0.5%, and +3.0%.

CAR
GOVERNING COMMITTEE

Changes to Baseline Adjustments
- Larger Deficit Effect -

Items	Adjustments
. Cession Limitations	Assume same caps as in previous scenarios
. Adjustment to Expense Allowance	Assume all business gets same reimbursement of 32% (was a 35.5% allowance for middle scenario and no change for smaller effect).
. ERP Listing . Additional Class Credits	Assume 30% of ERP's are taken out (was 20% for middle effect and 10% for smaller effect).
. ERP Assignment Process	Assume ERP's do not grow after 1989 (was 3% growth for middle effect and 5% for smaller effect).
. Two-Tier Rate	Assume "rate level increases" in 1990 ID 00 -3.0% ID 04 O/T ERP +2.3% ID 04 & 03 ERP's +2.8% S/W Effect NC Previously set at -2.0%, 0.5% and 3.0% for middle effect and -1.0%, NC, 1.5% for smaller effect.

COMMONWEALTH AUTOMOBILE REINSURERS
and MASSACHUSETTS DIVISION OF INSURANCE

Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

REVIEW OF ISSUES ADDRESSED AT JULY 11, 1989 MEETING
ESTIMATED IMPACT BY ISSUE

SENSITIVITY TO CHANGES IN ASSUMPTIONS
80% Loss Ratio
Basic Model

		"SMALLER EFFECT"			"MIDDLE EFFECT"			"LARGER EFFECT"		
Issues Included	Year	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio
"Baseline"	1990	$551.7	69.6%	48.0%	$551.7	69.6%	48.0%	$551.7	69.6%	48.0%
	1991	615.1	70.9%	47.2%	615.1	70.9%	47.2%	615.1	70.9%	47.2%
	1992	685.8	72.1%	46.5%	685.8	72.1%	46.5%	685.8	72.1%	46.5%
	1993	764.8	73.4%	45.7%	764.8	73.4%	45.7%	764.8	73.4%	45.7%
1. Cession Limits	1990	$576.4	59.8%	49.0%	$576.4	59.8%	49.0%	$576.4	59.8%	49.0%
	1991	651.1	54.1%	50.0%	651.1	54.1%	50.0%	651.1	54.1%	50.0%
	1992	726.6	47.6%	51.9%	726.6	47.6%	51.9%	726.6	47.6%	51.9%
	1993	763.1	39.8%	56.0%	763.1	39.8%	56.0%	763.1	39.8%	56.0%
2. #1, plus Involuntary Expense Reimbursement	1990	$571.6	59.3%	49.0%	$554.9	57.5%	49.0%	$496.5	51.5%	49.0%
	1991	637.6	52.9%	50.0%	620.7	51.5%	50.0%	561.4	46.6%	50.0%
	1992	700.6	45.9%	51.9%	684.0	44.8%	51.9%	625.8	41.0%	51.9%
	1993	721.5	37.6%	56.0%	705.6	36.8%	56.0%	649.8	33.9%	56.0%
3. #2, plus ERP Take-outs & Credits	1990	$563.7	54.6%	50.7%	$534.9	48.7%	52.7%	$465.0	39.9%	55.0%
	1991	628.8	49.1%	51.5%	598.2	44.2%	53.3%	526.0	36.8%	55.3%
	1992	690.7	42.9%	53.1%	658.7	38.9%	54.7%	586.0	32.9%	56.4%
	1993	710.4	35.3%	56.9%	677.2	32.2%	58.1%	605.1	27.5%	59.5%
4. #3, plus ERP Assignment Process	1990	$563.7	54.6%	50.7%	$536.7	48.7%	52.6%	$461.5	39.3%	55.3%
	1991	628.8	49.1%	51.5%	588.3	43.2%	54.1%	504.6	34.8%	57.0%
	1992	690.7	42.9%	53.1%	642.2	37.5%	55.7%	550.9	30.2%	58.6%
	1993	710.4	35.3%	56.9%	651.4	30.5%	59.4%	551.0	24.2%	62.2%
5. #4, plus Two-Tier Rate Structure (Entire Package)	1990	$553.1	54.1%	51.3%	$512.6	47.4%	53.9%	$420.8	37.0%	57.6%
	1991	616.0	48.6%	52.1%	560.1	41.8%	55.4%	457.9	32.5%	59.2%
	1992	675.4	42.3%	53.7%	609.3	36.1%	57.0%	498.4	28.0%	60.6%
	1993	692.9	34.7%	57.4%	615.0	29.2%	60.5%	496.6	22.3%	63.9%

COMMONWEALTH AUTOMOBILE REINSURERS
and MASSACHUSETTS DIVISION OF INSURANCE

Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

REVIEW OF ISSUES ADDRESSED AT JULY 11, 1989 MEETING
ESTIMATED IMPACT BY ISSUE

SENSITIVITY TO CHANGES IN ASSUMPTIONS
75% Loss Ratio
Basic Model

		"SMALLER EFFECT"			"MIDDLE EFFECT"			"LARGER EFFECT"		
Issues Included	Year	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio
"Baseline"	1990	$458.3	57.8%	43.3%	$458.3	57.8%	43.3%	$458.3	57.8%	43.3%
	1991	511.6	58.9%	42.6%	511.6	58.9%	42.6%	511.6	58.9%	42.6%
	1992	571.3	60.1%	41.8%	571.3	60.1%	41.8%	571.3	60.1%	41.8%
	1993	637.9	61.3%	41.1%	637.9	61.3%	41.1%	637.9	61.3%	41.1%
1. Cession Limits	1990	$490.7	50.9%	44.3%	$490.7	50.9%	44.3%	$490.7	50.9%	44.3%
	1991	562.8	46.7%	45.4%	562.8	46.7%	45.4%	562.8	46.7%	45.4%
	1992	638.0	41.8%	47.3%	638.0	41.8%	47.3%	638.0	41.8%	47.3%
	1993	675.6	35.3%	51.4%	675.6	35.3%	51.4%	675.6	35.3%	51.4%
2. #1, plus Involuntary Expense Reimbursement	1990	$485.9	50.4%	44.3%	$469.2	48.6%	44.3%	$410.8	42.6%	44.3%
	1991	549.3	45.6%	45.4%	532.3	44.2%	45.4%	473.1	39.3%	45.4%
	1992	611.9	40.1%	47.3%	595.3	39.0%	47.3%	537.1	35.2%	47.3%
	1993	634.0	33.1%	51.4%	618.1	32.3%	51.4%	562.3	29.3%	51.4%
3. #2, plus ERP Take-outs & Credits	1990	$481.5	46.7%	46.0%	$456.3	41.5%	48.0%	$390.3	33.5%	50.2%
	1991	544.4	42.5%	46.9%	517.9	38.2%	48.6%	450.0	31.5%	50.6%
	1992	606.5	37.6%	48.5%	579.1	34.2%	50.0%	511.2	28.7%	51.7%
	1993	627.8	31.2%	52.3%	599.8	28.5%	53.5%	533.1	24.2%	54.9%
4. #3, plus ERP Assignment Process	1990	$481.5	46.7%	46.0%	$458.5	41.6%	47.8%	$387.6	33.0%	50.5%
	1991	544.4	42.5%	46.9%	508.8	37.3%	49.4%	430.5	29.7%	52.2%
	1992	606.5	37.6%	48.5%	564.1	32.9%	51.0%	479.6	26.3%	53.8%
	1993	627.8	31.2%	52.3%	576.6	27.0%	54.7%	484.8	21.3%	57.4%
5. #4, plus Two-Tier Rate Structure (Entire Package)	1990	$470.9	46.1%	46.5%	$434.5	40.2%	49.1%	$346.9	30.5%	52.6%
	1991	531.6	41.9%	47.4%	480.7	35.9%	50.6%	383.9	27.2%	54.2%
	1992	591.1	37.0%	49.1%	531.3	31.5%	52.2%	427.2	24.0%	55.7%
	1993	610.3	30.6%	52.8%	540.4	25.6%	55.8%	430.6	19.3%	59.1%

CAR
GOVERNING COMMITTEE

Changes to Key Model Assumptions

- Assume more aggressive cession caps for 1991 through 1993 (40%, 30%, and 20%, respectively)

- Use alternative sliding scale take-out loss ratio assumptions.
  - random take-outs

COMMONWEALTH AUTOMOBILE REINSURERS
and MASSACHUSETTS DIVISION OF INSURANCE

Analysis of Proposals Related to
Section 66, Chapter 273 of the Acts of 1988

REVIEW OF ISSUES ADDRESSED AT JULY 11, 1989 MEETING
ESTIMATED IMPACT BY ISSUE

SENSITIVITY TO CHANGES IN BASIC MODEL ASSUMPTIONS
80% Loss Ratio
Basic Model

		"SMALLER EFFECT"			"MIDDLE EFFECT"			"LARGER EFFECT"		
Issues Included	Year	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio
Total Package	1990	$553.1	54.1%	51.3%	$512.6	47.4%	53.9%	$420.8	37.0%	57.6%
Basic Model	1991	616.0	48.6%	52.1%	560.1	41.8%	55.4%	457.9	32.5%	59.2%
	1992	675.4	42.3%	53.7%	609.3	36.1%	57.0%	498.4	28.0%	60.6%
	1993	692.9	34.7%	57.4%	615.0	29.2%	60.5%	496.6	22.3%	63.9%
Total Package	1990	$553.1	54.1%	51.3%	$512.6	47.4%	53.9%	$420.8	37.0%	57.6%
Basic Model with	1991	620.9	45.7%	52.5%	565.5	39.6%	55.6%	466.7	31.1%	59.1%
Cession Caps of	1992	652.8	38.2%	55.7%	587.6	32.7%	58.6%	481.6	25.4%	62.0%
55/40/30/20	1993	650.8	30.7%	59.7%	573.8	25.7%	62.6%	461.0	19.5%	65.7%
Total Package	1990	$478.7	46.8%	58.5%	$415.1	38.4%	62.9%	$313.5	27.6%	67.0%
Basic Model with	1991	485.5	35.7%	62.4%	411.9	28.8%	66.3%	304.1	20.2%	69.9%
Cession Caps of	1992	497.8	29.1%	64.7%	412.2	22.9%	68.4%	297.1	15.7%	71.7%
55/40/30/20, and	1993	507.9	24.0%	66.5%	408.6	18.3%	70.0%	286.5	12.1%	73.1%
"Random" Take-Outs										

COMMONWEALTH AUTOMOBILE REINSURERS
and MASSACHUSETTS DIVISION OF INSURANCE

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SENSITIVITY TO CHANGES IN BASIC MODEL ASSUMPTIONS
75% Loss Ratio
Basic Model

		"SMALLER EFFECT"			"MIDDLE EFFECT"			"LARGER EFFECT"		
Issues Included	Year	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio	Est'd CAR Deficit ($Mill)	Def as % of Vol Premium	Vol Loss Ratio
Total Package	1990	$470.9	46.1%	46.5%	$434.5	40.2%	49.1%	$346.9	30.5%	52.6%
Basic Model	1991	531.6	41.9%	47.4%	480.7	35.9%	50.6%	383.9	27.2%	54.2%
	1992	591.1	37.0%	49.1%	531.3	31.5%	52.2%	427.2	24.0%	55.7%
	1993	610.3	30.6%	52.8%	540.4	25.6%	55.8%	430.6	19.3%	59.1%
Total Package	1990	$470.9	46.1%	46.5%	$434.5	40.2%	49.1%	$346.9	30.5%	52.6%
Basic Model with	1991	540.6	39.8%	47.8%	490.2	34.3%	50.8%	396.9	26.4%	54.2%
Cession Caps of	1992	573.6	33.6%	51.0%	514.7	28.6%	53.9%	415.6	21.9%	57.1%
55/40/30/20	1993	573.7	27.1%	55.1%	504.8	22.6%	57.9%	400.8	17.0%	60.8%
Total Package	1990	$397.2	38.9%	53.8%	$338.2	31.3%	58.0%	$241.1	21.2%	61.9%
Basic Model with	1991	405.9	29.9%	57.7%	337.8	23.6%	61.5%	235.8	15.7%	64.9%
Cession Caps of	1992	419.4	24.5%	60.0%	340.7	18.9%	63.6%	232.8	12.3%	66.8%
55/40/30/20, and	1993	431.8	20.4%	61.8%	341.0	15.3%	65.2%	228.1	9.7%	68.2%
"Random" Take-Outs										

CAR
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Next Steps

- Refine assumptions
- Test additional issues
- Report results to CAR and Division of Insurance

Commonwealth Automobile Reinsurers
100 Summer Street, Boston, Massachusetts 02110
(617) 338-4000 (617) 338-5422 (Telefax)

RAYMOND M LaFONTAINE
President

MICHAEL J TROVATO
Executive Vice President
and Treasurer

To: All Members of the Depopulation Advisory Committee

Date: May 18, 1989

Re: Supplemental Agenda Item #89.2

At their May 9, 1989 committee meeting, the Depopulation Advisory Committee requested that C.A.R. Staff create an exhibit which would contain a matrix identifying the total market cession rates that would be reached by implementing various cession limitation levels on the voluntary and involuntary segments of the private passenger market. Attached please find this exhibit. The committee members should review this exhibit and be prepared to discuss it at the May 22, 1989 meeting.

Please note that the total market cession ratios were calculated from 1988 policy year data reported through December 1988 and the involuntary C.A.R. I.D. 4 business was estimated from cession data reported through June 1988. To identify a total market cession rate, select the column corresponding to the voluntary ceded market segment cession limitation desired and the row corresponding to the involuntary ceded market segment cession limitation desired. The total market cession rate will be found where the column and row intersect. For example, assuming a 70% and 50% cession limitation on the voluntary and involuntary market segments respectively, the total market cession rate will equal 61.1%.

John V. Kelly
Financial Manager

Total Market Cession Ratios

Private Passenger Business

May-89

Voluntary Ceded Market Cession Limitation Levels

Involuntary Ceded Cession Limit Levels	20%	30%	35%	40%	45%	50%	55%	60%	65%	70%	75%
100%	37.3%	44.4%	47.9%	51.5%	55.0%	58.6%	62.1%	65.6%	69.2%	72.7%	76.2%
95%	36.1%	43.2%	46.7%	50.3%	53.8%	57.4%	60.9%	64.4%	68.0%	71.5%	75.0%
90%	35.0%	42.1%	45.6%	49.2%	52.7%	56.3%	59.8%	63.3%	66.9%	70.4%	73.9%
85%	33.8%	40.9%	44.4%	48.0%	51.5%	55.1%	58.6%	62.1%	65.7%	69.2%	72.7%
80%	32.7%	39.8%	43.3%	46.9%	50.4%	54.0%	57.5%	61.0%	64.6%	68.1%	71.6%
75%	31.5%	38.6%	42.1%	45.7%	49.2%	52.8%	56.3%	59.8%	63.4%	66.9%	70.4%
70%	30.3%	37.4%	40.9%	44.5%	48.0%	51.6%	55.1%	58.6%	62.2%	65.7%	69.2%
65%	29.2%	36.3%	39.8%	43.4%	46.9%	50.5%	54.0%	57.5%	61.1%	64.6%	68.1%
60%	28.0%	35.1%	38.6%	42.2%	45.7%	49.3%	52.8%	56.3%	59.9%	63.4%	66.9%
55%	26.9%	34.0%	37.5%	41.1%	44.6%	48.2%	51.7%	55.2%	58.8%	62.3%	65.8%
50%	25.7%	32.8%	36.3%	39.9%	43.4%	47.0%	50.5%	54.0%	57.6%	61.1%	64.6%
45%	24.5%	31.6%	35.1%	38.7%	42.2%	45.8%	49.3%	52.8%	56.4%	59.9%	63.4%
40%	23.4%	30.5%	34.0%	37.6%	41.1%	44.7%	48.2%	51.7%	55.3%	58.8%	62.3%

Note: The above total market cession ratios were calculated from 1988 policy year data @ 12 months.
Involuntary C.A.R. ID 4 business was estimated from cession data reported through June 1988.

	Percent of Total Market
S.C.'s Involuntary Ceded	23.2%
S.C.'s Vol Ceded	40.9%
Total Ceded	64.1%
S.C.'s Vol Retained	29.8%
S.C.'s Vol Ret. + Vol. Ced.	70.7%
Non-Ser. Carriers	6.1%
Total Market	100.0%

1987 Calendar Year Private Passenger Liability Loss Ratio and Cession Voume Report — APR-14-1989

Exposures and Premiums at 12 Months, Losses at 15 Months

Territory	Car Id	Earned PDL Exposure	% of Terr. Exposures	% of CAR ID Exposures	Liability Earned Premium	Incurred Loss -Undeveloped	Loss Ratio
#01	0	56,469.0	51.8%	4.1%	$17,254,928	$3,927,410	0.228
	4	47,072.2	43.2%	3.6%	$14,929,683	$6,070,395	0.407
	3	5,448.5	5.0%	1.0%	$1,634,022	$764,304	0.468
	ALL	108,989.7	100.0%	3.4%	$33,818,633	$10,762,109	0.318
#02	0	59,892.3	51.6%	4.3%	$19,114,747	$4,548,203	0.238
	4	47,904.7	41.3%	3.7%	$15,956,410	$7,248,789	0.454
	3	8,236.3	7.1%	1.5%	$2,565,816	$1,238,885	0.483
	ALL	116,033.3	100.0%	3.6%	$37,636,973	$13,035,877	0.346
#03	0	159,399.4	50.2%	11.5%	$53,150,096	$13,686,486	0.258
	4	136,855.2	43.1%	10.5%	$47,649,972	$21,466,935	0.451
	3	21,197.6	6.7%	4.0%	$6,795,584	$3,605,784	0.531
	ALL	317,452.2	100.0%	9.9%	$107,595,652	$38,759,205	0.360
#04	0	143,327.7	48.9%	10.4%	$48,973,717	$12,522,276	0.256
	4	124,539.1	42.5%	9.5%	$44,730,597	$21,050,540	0.471
	3	25,499.8	8.7%	4.8%	$8,325,555	$4,419,550	0.531
	ALL	293,366.6	100.0%	9.1%	$102,029,869	$37,992,366	0.372
#05	0	142,433.2	46.8%	10.3%	$48,367,733	$12,892,276	0.267
	4	131,140.5	43.0%	10.0%	$46,471,499	$24,330,640	0.524
	3	31,085.3	10.2%	5.8%	$9,994,624	$6,536,565	0.654
	ALL	304,659.0	100.0%	9.5%	$104,833,856	$43,759,481	0.417
#06	0	181,714.9	46.0%	13.1%	$63,452,151	$16,661,400	0.263
	4	168,310.3	42.6%	12.9%	$61,747,020	$30,870,390	0.500
	3	44,773.3	11.3%	8.4%	$15,026,650	$9,355,019	0.623
	ALL	394,798.5	100.0%	12.3%	$140,225,821	$56,886,809	0.406
#07	0	115,810.5	44.6%	8.4%	$42,414,998	$10,580,550	0.249
	4	107,706.3	41.4%	8.3%	$41,242,269	$19,082,719	0.463
	3	36,389.2	14.0%	6.8%	$12,769,646	$7,654,558	0.599
	ALL	259,906.0	100.0%	8.1%	$96,426,913	$37,317,827	0.387

1987 Calendar Year Private Passenger Liability Loss Ratio and Cession Voume Report — APR-14-1989

Exposures and Premiums at 12 Months, Losses at 15 Months

Territory	Car Id	PDL Earned Exposure	% of Terr. Exposures	% of CAR ID Exposures	Liability Earned Premium	Incurred Loss -Undeveloped	Loss Ratio
#15	0	14,296.3	30.1%	1.0%	$5,737,245	$1,588,046	0.277
	4	14,047.3	29.6%	1.1%	$5,914,979	$3,430,889	0.580
	3	19,092.1	40.2%	3.6%	$7,371,017	$5,084,520	0.690
	ALL	47,435.7	100.0%	1.5%	$19,023,241	$10,103,455	0.531
#16	0	8,927.8	31.3%	0.6%	$3,843,023	$1,199,475	0.312
	4	6,972.6	24.4%	0.5%	$3,188,125	$1,959,245	0.615
	3	12,653.0	44.3%	2.4%	$5,327,024	$4,143,609	0.778
	ALL	28,553.4	100.0%	0.9%	$12,358,172	$7,302,329	0.591
#17	0	6,122.2	43.0%	0.4%	$2,305,322	$690,736	0.300
	4	5,489.2	38.5%	0.4%	$2,175,781	$937,213	0.431
	3	2,637.6	18.5%	0.5%	$976,266	$586,583	0.601
	ALL	14,249.0	100.0%	0.4%	$5,457,369	$2,214,532	0.406
#18	0	4,276.5	34.5%	0.3%	$1,742,334	$538,144	0.309
	4	4,444.0	35.9%	0.3%	$1,898,352	$984,165	0.518
	3	3,668.8	29.6%	0.7%	$1,445,941	$1,207,387	0.835
	ALL	12,389.3	100.0%	0.4%	$5,086,627	$2,729,696	0.537
#19	0	3,519.5	27.8%	0.3%	$1,550,821	$421,345	0.272
	4	3,446.1	27.2%	0.3%	$1,530,663	$699,689	0.457
	3	5,699.8	45.0%	1.1%	$2,241,589	$1,818,324	0.811
	ALL	12,665.4	100.0%	0.4%	$5,323,073	$2,939,358	0.552
#20	0	4,997.9	37.6%	0.4%	$2,020,170	$679,102	0.336
	4	4,128.7	31.1%	0.3%	$1,768,996	$1,080,065	0.611
	3	4,163.9	31.3%	0.8%	$1,644,673	$1,405,638	0.855
	ALL	13,290.5	100.0%	0.4%	$5,433,839	$3,164,805	0.582
#21	0	8,892.1	21.7%	0.6%	$4,235,181	$1,598,518	0.377
	4	9,663.5	23.5%	0.7%	$4,691,151	$3,330,670	0.710
	3	22,511.6	54.8%	4.2%	$9,911,962	$11,026,962	1.112
	ALL	41,067.2	100.0%	1.3%	$18,838,294	$15,956,150	0.847

Exposures and Premiums at 12 Months, Losses at 15 Months

Territory	Car Id	Earned OTC Exposure	% of Terr. Exposures	% of CAR ID Exposures	Physical Damage Earned Premium	Incurred Loss -Undeveloped	Loss Ratio
#01	0	39,964.2	53.9%	3.7%	$9,987,822	$4,296,924	0.430
	4	30,924.3	41.7%	3.3%	$8,283,698	$5,627,720	0.679
	3	3,216.7	4.3%	0.9%	$913,098	$744,739	0.816
	ALL	74,105.2	100.0%	3.1%	$19,184,618	$10,669,383	0.556
#02	0	44,107.4	53.9%	4.1%	$11,653,685	$5,112,993	0.439
	4	32,496.0	39.7%	3.4%	$9,647,773	$7,122,876	0.738
	3	5,272.7	6.4%	1.5%	$1,563,739	$1,527,861	0.977
	ALL	81,876.1	100.0%	3.4%	$22,865,197	$13,763,730	0.602
#03	0	121,303.7	52.2%	11.3%	$33,233,319	$15,368,727	0.462
	4	97,362.8	41.9%	10.2%	$30,141,289	$22,259,946	0.739
	3	13,866.6	6.0%	3.9%	$4,451,940	$3,917,031	0.880
	ALL	232,533.1	100.0%	9.8%	$67,826,548	$41,545,704	0.613
#04	0	109,349.7	51.0%	10.2%	$31,035,572	$14,638,210	0.472
	4	88,084.7	41.1%	9.3%	$28,461,504	$22,366,517	0.786
	3	17,044.6	7.9%	4.8%	$5,502,471	$4,944,774	0.899
	ALL	214,479.0	100.0%	9.0%	$64,999,547	$41,949,501	0.645
#05	0	110,657.6	49.0%	10.3%	$31,166,032	$13,728,464	0.440
	4	94,896.4	42.1%	10.0%	$30,501,405	$23,979,036	0.786
	3	20,072.0	8.9%	5.7%	$6,499,770	$5,943,977	0.914
	ALL	225,626.0	100.0%	9.5%	$68,167,207	$43,651,477	0.640
#06	0	140,202.4	48.3%	13.1%	$40,538,655	$18,170,571	0.448
	4	121,180.4	41.7%	12.7%	$40,290,473	$33,077,005	0.821
	3	28,949.6	10.0%	8.2%	$9,789,580	$10,130,197	1.035
	ALL	290,332.4	100.0%	12.2%	$90,618,708	$61,377,773	0.677
#07	0	92,707.3	46.4%	8.6%	$28,063,952	$13,653,910	0.487
	4	81,625.5	40.8%	8.6%	$28,558,195	$24,034,466	0.842
	3	25,570.1	12.8%	7.2%	$9,248,725	$9,445,356	1.021
	ALL	199,902.9	100.0%	8.4%	$65,870,872	$47,133,732	0.716

Exposures and Premiums at 12 Months, Losses at 15 Months

Territory	Car Id	Earned OTC Exposure	% of Terr. Exposures	% of CAR ID Exposures	Physical Damage Earned Premium	Incurred Loss -Undeveloped	Loss Ratio
#15	0	11,150.9	32.6%	1.0%	$4,348,371	$1,943,002	0.447
	4	10,410.4	30.4%	1.1%	$4,739,025	$4,575,460	0.965
	3	12,648.6	37.0%	3.6%	$5,901,350	$6,435,879	1.091
	ALL	34,209.9	100.0%	1.4%	$14,988,746	$12,954,341	0.864
#16	0	6,579.3	33.1%	0.6%	$2,986,975	$1,517,606	0.508
	4	5,189.8	26.1%	0.5%	$2,812,613	$3,142,485	1.117
	3	8,126.2	40.8%	2.3%	$4,349,084	$5,641,959	1.297
	ALL	19,895.3	100.0%	0.8%	$10,148,672	$10,302,050	1.015
#17	0	5,139.0	44.8%	0.5%	$1,720,099	$833,129	0.484
	4	4,408.4	38.4%	0.5%	$1,686,489	$1,503,866	0.892
	3	1,926.7	16.8%	0.5%	$777,341	$878,689	1.130
	ALL	11,474.1	100.0%	0.5%	$4,183,929	$3,215,684	0.769
#18	0	3,395.1	37.0%	0.3%	$1,347,945	$668,648	0.496
	4	3,324.3	36.3%	0.3%	$1,512,501	$1,529,515	1.011
	3	2,446.9	26.7%	0.7%	$1,171,330	$1,528,462	1.305
	ALL	9,166.3	100.0%	0.4%	$4,031,776	$3,726,625	0.924
#19	0	2,738.5	29.8%	0.3%	$1,181,835	$697,650	0.590
	4	2,596.9	28.3%	0.3%	$1,190,323	$1,293,029	1.086
	3	3,844.8	41.9%	1.1%	$1,772,334	$2,624,121	1.481
	ALL	9,180.2	100.0%	0.4%	$4,144,492	$4,614,800	1.113
#20	0	3,980.2	39.9%	0.4%	$1,585,471	$812,585	0.513
	4	3,083.6	30.9%	0.3%	$1,432,158	$1,502,674	1.049
	3	2,904.2	29.1%	0.8%	$1,439,187	$2,123,248	1.475
	ALL	9,968.0	100.0%	0.4%	$4,456,816	$4,438,507	0.996
#21	0	6,765.2	23.4%	0.6%	$3,484,105	$2,106,905	0.605
	4	6,971.0	24.1%	0.7%	$3.987,813	$4,894,423	1.227
	3	15,194.3	52.5%	4.3%	$8,800,788	$15,257,099	1.734
	ALL	28,930.5	100.0%	1.2%	$16,272,706	$22,258,427	1.368

Proposal to Reduce Expense Allowances Paid to Servicing Carriers on Ceded Business

Problem:

During the last several years, the volume of business produced by ID Code 3 and ID Code 4 involuntary producers has grown considerably. The additional expense allowance paid to Servicing Carriers to service involuntary produced business is somewhere in the vicinity of 70 million dollars. This additional expense allowance currently is paid to those Servicing Carriers who service the ID Code 3 producers.

Solution:

We propose grouping all ceded business together and establishing an industry wide ceding expense allowance percentage that would result in a considerable savings over current methods. The overall ceding expense allowance must take into consideration the expense needs established by the Commissioner in the annual rate decision. We suggest that the expense allowance paid to Servicing Carriers be adjusted using a frequency based sliding scale. The Governing Committee would determine the savings to be realized. The interim ceding allowance to be given to all Servicing Carriers could be backed into based on the savings the industry wanted to generate. Once the year is completed, all Servicing Carriers ceded claim frequency data would be gathered and compared against ceded industry averages. To the extent that a Servicing Carrier deviated upward or downward as relates to frequency, their ceding allowance would be adjusted. In no case would CAR pay ceding allowance in the aggregate in excess of the amount determined by the Governing Committee at the beginning of the year.

We suggest the frequency based expense allowance methodology for the following reasons:

1. It is an incentive for depopulation, the ceding expense allowance will be reduced on good business that a carrier cedes.

2. This method is fair to all Servicing Carriers. The expense needs of each and every Servicing Carrier will be met in accordance with the Commissioner's annual rate decision.

3. This method is fair to all producers throughout the Commonwealth as the ceding expense allowance will no longer vary by producer.

4. This method is simple, easy to understand and to implement.

5. Less chance of companies erroneously reporting data. Loss ratio has not worked well in the past.

6. Expense allowance is no longer attached to a specific class of broker, i.e. no more ID Code 3.

7. Once in place, it is a perpetual rule with no need for re-classification on an annual basis.

For policy year 1987 the total expense allowance on all ceded business was $527,925,000. If you exclude producer commissions, direct writing selling expenses and premium tax the ceding expense allowance to Servicing Carriers was 22.5%. If we were to reduce the ceding expense allowance by $15,000,000 then the interim ceding expense allowance that would be used in our methodology would be 21.5%.

The expense percentages used to compute the final expense allowances are calculated by adjusting the interim expense allowance for the claims frequency of the Servicing Carrier's book of business as compared to the industry average claims frequency for ceded business.

A Servicing Carrier whose claim frequency is less than the average for all Servicing Carrier's book of business, will have its final expense allowances reduced. A Servicing Carrier whose claim frequency is more than the average for all the Servicing Carrier's book of business, will receive more.

Final Determination of Ceding Expenses Example for Company XXX and ZZZ

Co.	Ceded* Claim Count		Ceded Written Exposures		Ceded Claim Frequency	Industry Claim Frequency
XXX	29358	/	59683 x 100	=	49.19	/ 50.15
ZZZ	18337	/	34008 x 100	=	53.92	/ 50.15

Frequency Adjustment Factor		Interim Expense Allowance		Final Ceding Expense Allowance
= .9806	x	.2150	=	.2108
= 1.0752	x	.2150	=	.2312

* Ceded Claim Count as defined in the Massachusetts Automobile Statistical Plan, and as used by the Massachusetts Automobile Rating Bureau in rate filings. Towing losses are not assigned a claim count.

ANALYSIS OF CEDED MARKET*
POLICY YEARS 1984 - 1988 AT 12 MONTHS

POLICY YEAR	C.A.R. I.D.	PRIVATE PASSENGER EXPOSURES (CAR YEARS)	PRIVATE PASSENGER PERCENT FOR YEAR	COMMERCIAL WRITTEN PREMIUMS	COMMERCIAL PERCENT FOR YEAR
1984	3	461,405	15.5%	22,453,111	7.9
	INVOL4	45,959	1.5%	1,844,232	0.7
	SUBTOT: INVOL CEDED	507,364	17.0%	24,297,343	8.6
	VOL4	855,190	28.6%	66,460,664	23.5
	TOTAL CEDED	1,362,554	45.6%	90,758,007	32.1
	0	1,623,600	54.4%	191,992,421	67.9
	TOTAL	2,986,154	100.0%	282,750,428	100.0
1985	3	495,553	15.9%	29,174,393	8.2
	INVOL4	90,863	2.9%	6,797,946	1.9
	SUBTOT: INVOL CEDED	586,416	18.8%	35,972,339	10.2
	VOL4	953,537	30.6%	126,495,121	35.7
	TOTAL CEDED	1,539,953	49.5%	162,467,460	45.8
	0	1,572,940	50.5%	191,902,214	54.2
	TOTAL	3,112,893	100.0%	354,369,674	100.0
1986	3	532,883	16.5%	37,961,678	8.6
	INVOL4	127,714	4.0%	17,942,100	4.1
	SUBTOT: INVOL CEDED	660,597	20.4%	55,903,778	12.6
	VOL4	1,112,230	34.4%	215,072,190	48.6
	TOTAL CEDED	1,772,827	54.9%	270,975,968	61.3
	0	1,458,152	45.1%	171,316,317	38.7
	TOTAL	3,230,979	100.0%	442,292,285	100.0
1987	3	566,605	16.9%	48,321,868	9.5%
	INVOL4	185,579	5.5%	26,641,830	5.3%
	SUBTOT: INVOL CEDED	752,184	22.5%	74,963,698	14.8%
	VOL4	1,220,322	36.5%	279,586,097	55.1%
	TOTAL CEDED	1,972,506	59.0%	354,549,795	69.9%
	0	1,371,461	41.0%	152,701,844	30.1%
	TOTAL	3,343,967	100.0%	507,251,639	100.0%
1988	3	587,328	17.3%	57,957,460	10.2%
	INVOL4	199,005	5.9%	29,268,093	5.2%
	SUBTOT: INVOL CEDED	786,333	23.2%	87,225,553	15.4%
	VOL4	1,386,310	40.9%	329,940,303	58.1%
	TOTAL CEDED	2,172,643	64.0%	417,165,856	73.4%
	0	1,219,949	36.0%	150,840,305	26.6%
	TOTAL	3,392,592	100.0%	568,006,161	100.0%

* BREAKDOWN OF C.A.R. I.D. 4 CEDED BUSINESS INTO VOLUNTARY AND INVOLUNTARY PRODUCER PORTIONS IS FROM INCEPTION-TO-DATE POLICY COUNTS AND WRITTEN PREMIUMS THROUGH JUNE, 1988

(6)

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RAYMOND M LAFONTAINE
President

MICHAEL J TROVATO
Executive Vice President
and Treasurer

TO: All Member of the Depopulation Advisory Committee

DATE: May 19, 1989

RE: Supplemental Information for Agenda Item 89.2

As requested by the Depopulation Advisory Committee at their meeting of May 9, 1989, attached are several exhibits which display credit utilization by territory and class. Note that both liability and physical damage credit information is included.

The territory exhibits are based on calendar year 1986 data, displayed in the 1986 territory configuration. The class credit reports reflect calendar year 1987 data.

The committee members should review these exhibits and be prepared to discuss them at their meeting scheduled for May 22, 1989.

Marian S. Adgate
Statistical Manager

1986 Calendar Year Private Passenger Liability Territory

Rule 12 Credit Analysis

CAR ID	Territory	Earned PDL Exposure	% of Terr. Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	#01	56,091.0	62.29%	No Credit	No Credit	No Credit
4		33,952.9	37.71%	No Credit	No Credit	No Credit
Total		90,043.9	100.00%	No Credit	No Credit	No Credit
0	#02	53,255.6	60.06%	No Credit	No Credit	No Credit
4		35,410.0	39.94%	No Credit	No Credit	No Credit
Total		88,665.6	100.00%	No Credit	No Credit	No Credit
0	#03	107,095.0	59.54%	No Credit	No Credit	No Credit
4		72,770.4	40.46%	No Credit	No Credit	No Credit
Total		179,865.4	100.00%	No Credit	No Credit	No Credit
0	#04	195,227.3	58.80%	No Credit	No Credit	No Credit
4		136,809.5	41.20%	No Credit	No Credit	No Credit
Total		332,036.8	100.00%	No Credit	No Credit	No Credit
0	#05	161,988.0	57.28%	No Credit	No Credit	No Credit
4		120,794.4	42.72%	No Credit	No Credit	No Credit
Total		282,782.4	100.00%	No Credit	No Credit	No Credit
0	#06	152,794.9	56.40%	No Credit	No Credit	No Credit
4		118,141.1	43.60%	No Credit	No Credit	No Credit
Total		270,936.0	100.00%	No Credit	No Credit	No Credit
0	#07	194,430.9	55.97%	No Credit	No Credit	No Credit
4		152,931.0	44.03%	No Credit	No Credit	No Credit
Total		347,361.9	100.00%	No Credit	No Credit	No Credit
0	#08	125,824.8	53.66%	No Credit	No Credit	No Credit
4		108,678.6	46.34%	No Credit	No Credit	No Credit
Total		234,503.4	100.00%	No Credit	No Credit	No Credit
0	#09	66,871.5	51.54%	0.15	10,030.7	51.54%
4		62,873.8	48.46%	0.15	9,431.1	
Total		129,745.3	100.00%	0.15	19,461.8	

Rule 12 Credit Analysis

CAR ID	Territory	Earned PDL Exposure	% of Terr. Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	#10	81,506.4	54.23%	0.15	12,226.0	54.23%
4		68,802.6	45.77%	0.15	10,320.4	
Total		150,309.0	100.00%	0.15	22,546.4	
0	#11	55,821.2	55.15%	0.15	8,373.2	55.15%
4		45,403.4	44.85%	0.15	6,810.5	
Total		101,224.6	100.00%	0.15	15,183.7	
0	#12	75,029.6	54.00%	0.30	22,508.9	54.00%
4		63,910.5	46.00%	0.30	19,173.2	
Total		138,940.1	100.00%	0.30	41,682.0	
0	#13	64,860.9	55.39%	0.60	38,916.5	55.39%
4		52,242.1	44.61%	0.60	31,345.3	
Total		117,103.0	100.00%	0.60	70,261.8	
0	#14	9,711.6	56.85%	1.20	11,653.9	56.85%
4		7,371.5	43.15%	1.20	8,845.8	
Total		17,083.1	100.00%	1.20	20,499.7	
0	#15	9,168.9	55.99%	1.20	11,002.7	55.99%
4		7,208.2	44.01%	1.20	8,649.8	
Total		16,377.1	100.00%	1.20	19,652.5	
0	#16	9,256.5	60.22%	2.40	22,215.6	60.22%
4		6,115.4	39.78%	2.40	14,677.0	
Total		15,371.9	100.00%	2.40	36,892.6	
0	#17	6,605.1	57.93%	0.30	1,981.5	57.93%
4		4,797.2	42.07%	0.30	1,439.2	
Total		11,402.3	100.00%	0.30	3,420.7	
0	#18	4,511.5	53.97%	1.20	5,413.8	53.97%
4		3,847.7	46.03%	1.20	4,617.2	
Total		8,359.2	100.00%	1.20	10,031.0	

1986 Calendar Year Private Passenger Liability Territory

MAY-19-1989

Rule 12 Credit Analysis

CAR ID	Territory	Earned PDL Exposure	% of Terr. Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	#19	3,504.5	54.66%	2.40	8,410.8	54.66%
4		2,906.4	45.34%	2.40	6,975.4	
Total		6,410.9	100.00%	2.40	15,386.2	
0	#20	5,111.0	58.04%	1.80	9,199.8	58.04%
4		3,694.7	41.96%	1.80	6,650.5	
Total		8,805.7	100.00%	1.80	15,850.3	
0	#21	8,863.7	50.35%	2.40	21,272.9	50.35%
4		8,739.6	49.65%	2.40	20,975.0	
Total		17,603.3	100.00%	2.40	42,247.9	
0	#22	1,229.7	44.65%	2.40	2,951.3	44.65%
4		1,524.4	55.35%	2.40	3,658.6	
Total		2,754.1	100.00%	2.40	6,609.8	
0	#23	7,367.3	48.89%	2.40	17,681.5	48.89%
4		7,700.6	51.11%	2.40	18,481.4	
Total		15,067.9	100.00%	2.40	36,163.0	
0	#24	5,888.4	51.45%	1.20	7,066.1	51.45%
4		5,555.5	48.55%	1.20	6,666.6	
Total		11,443.9	100.00%	1.20	13,732.7	
0	#25	1,983.7	50.85%	2.40	4,760.9	50.85%
4		1,917.2	49.15%	2.40	4,601.3	
Total		3,900.9	100.00%	2.40	9,362.2	
0	#26	3,592.5	56.43%	2.40	8,622.0	56.43%
4		2,774.0	43.57%	2.40	6,657.6	
Total		6,366.5	100.00%	2.40	15,279.6	
0	ALL	1,467,591.5	56.35%		215,088.3	53.99%
4		1,136,872.7	43.65%		183,325.4	
Total		2,604,464.2	100.00%		398,413.6	

1986 Calendar Year Private Passenger Physical Damage Territory

Rule 12 Credit Analysis

CAR ID	Territory	Earned OTC Exposure	% of Terr. Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	#01	39,810.1	64.28%	No Credit	No Credit	No Credit
4		22,126.8	35.72%	No Credit	No Credit	No Credit
ALL		61,936.9	100.00%	No Credit	No Credit	No Credit
0	#02	39,128.2	61.87%	No Credit	No Credit	No Credit
4		24,118.7	38.13%	No Credit	No Credit	No Credit
ALL		63,246.9	100.00%	No Credit	No Credit	No Credit
0	#03	82,769.6	61.13%	No Credit	No Credit	No Credit
4		52,630.6	38.87%	No Credit	No Credit	No Credit
ALL		135,400.2	100.00%	No Credit	No Credit	No Credit
0	#04	149,028.1	60.70%	No Credit	No Credit	No Credit
4		96,504.0	39.30%	No Credit	No Credit	No Credit
ALL		245,532.1	100.00%	No Credit	No Credit	No Credit
0	#05	121,701.2	59.11%	No Credit	No Credit	No Credit
4		84,200.9	40.89%	No Credit	No Credit	No Credit
ALL		205,902.1	100.00%	No Credit	No Credit	No Credit
0	#06	119,878.3	58.11%	No Credit	No Credit	No Credit
4		86,415.2	41.89%	No Credit	No Credit	No Credit
ALL		206,293.5	100.00%	No Credit	No Credit	No Credit
0	#07	154,170.4	57.59%	No Credit	No Credit	No Credit
4		113,544.2	42.41%	No Credit	No Credit	No Credit
ALL		267,714.6	100.00%	No Credit	No Credit	No Credit
0	#08	99,467.8	55.51%	No Credit	No Credit	No Credit
4		79,709.6	44.49%	No Credit	No Credit	No Credit
ALL		179,177.4	100.00%	No Credit	No Credit	No Credit
0	#09	53,460.8	53.10%	0.15	8,019.1	53.10%
4		47,210.1	46.90%	0.15	7,081.5	
ALL		100,670.9	100.00%	0.15	15,100.6	

Rule 12 Credit Analysis

CAR ID	Territory	Earned OTC Exposure	% of Terr. Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	#10	63,853.7	55.53%	0.15	9,578.1	55.53%
4		51,131.1	44.47%	0.15	7,669.7	
ALL		114,984.8	100.00%	0.15	17,247.7	
0	#11	44,112.1	56.91%	0.15	6,616.8	56.91%
4		33,400.6	43.09%	0.15	5,010.1	
ALL		77,512.7	100.00%	0.15	11,626.9	
0	#12	60,784.6	55.57%	0.30	18,235.4	55.57%
4		48,597.5	44.43%	0.30	14,579.3	
ALL		109,382.1	100.00%	0.30	32,814.6	
0	#13	50,362.4	56.70%	0.60	30,217.4	56.70%
4		38,465.0	43.30%	0.60	23,079.0	
ALL		88,827.4	100.00%	0.60	53,296.4	
0	#14	7,611.4	57.70%	1.20	9,133.7	57.70%
4		5,580.3	42.30%	1.20	6,696.4	
ALL		13,191.7	100.00%	1.20	15,830.0	
0	#15	7,038.9	57.27%	1.20	8,446.7	57.27%
4		5,251.9	42.73%	1.20	6,302.3	
ALL		12,290.8	100.00%	1.20	14,749.0	
0	#16	6,798.5	60.04%	2.40	16,316.4	60.04%
4		4,525.7	39.96%	2.40	10,861.7	
ALL		11,324.2	100.00%	2.40	27,178.1	
0	#17	5,525.4	59.10%	0.30	1,657.6	59.10%
4		3,824.2	40.90%	0.30	1,147.3	
ALL		9,349.6	100.00%	0.30	2,804.9	
0	#18	3,572.3	55.68%	1.20	4,286.8	55.68%
4		2,843.5	44.32%	1.20	3,412.2	
ALL		6,415.8	100.00%	1.20	7,699.0	

Rule 12 Credit Analysis

CAR ID	Territory	Earned CTC Exposure	% of Terr. Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	#19	2,772.5	55.66%	2.40	6,654.0	55.66%
4		2,208.7	44.34%	2.40	5,300.9	
ALL		4,981.2	100.00%	2.40	11,954.9	
0	#20	4,057.2	59.58%	1.80	7,303.0	59.58%
4		2,752.8	40.42%	1.80	4,955.0	
ALL		6,810.0	100.00%	1.80	12,258.0	
0	#21	6,605.9	50.99%	2.40	15,854.2	50.99%
4		6,350.6	49.01%	2.40	15,241.4	
ALL		12,956.5	100.00%	2.40	31,095.6	
0	#22	938.2	46.67%	2.40	2,251.7	46.67%
4		1,072.2	53.33%	2.40	2,573.3	
ALL		2,010.4	100.00%	2.40	4,825.0	
0	#23	5,541.2	48.87%	2.40	13,298.9	48.87%
4		5,797.0	51.13%	2.40	13,912.8	
ALL		11,338.2	100.00%	2.40	27,211.7	
0	#24	4,721.1	52.48%	1.20	5,665.3	52.48%
4		4,274.9	47.52%	1.20	5,129.9	
ALL		8,996.0	100.00%	1.20	10,795.2	
0	#25	1,437.1	52.10%	2.40	3,449.0	52.10%
4		1,321.2	47.90%	2.40	3,170.9	
ALL		2,758.3	100.00%	2.40	6,619.9	
0	#26	2,566.1	56.33%	2.40	6,158.6	56.33%
4		1,989.3	43.67%	2.40	4,774.3	
ALL		4,555.4	100.00%	2.40	10,933.0	
0	ALL	1,137,713.1	57.94%		165,839.7	54.95%
4		825,846.6	42.06%		135,943.0	
ALL		1,963,559.7	100.00%		301,782.5	

Rule 12 Credit Analysis

CAR ID	Rate Class	Stat Class	Earned PDL Exposure	% of Class Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	17	22	1,220.9	4.51%	0.90	1,098.81	4.51%
4			25,847.6	95.49%	0.90	23,262.84	
Total			27,068.5	100.00%	0.90	24,361.65	
0	17	42	2,744.8	8.21%	0.90	2,470.32	8.21%
4			30,672.7	91.79%	0.90	27,605.43	
Total			33,417.5	100.00%	0.90	30,075.75	
0	TOTAL CLASS 17		3,965.7	6.56%	0.90	3,569.13	6.56%
4			56,520.3	93.44%	0.90	50,868.27	
Total			60,486.0	100.00%	0.90	54,437.40	
0	18	20	1,110.8	22.92%	0.90	999.72	22.92%
4			3,735.0	77.08%	0.90	3,361.50	
Total			4,845.8	100.00%	0.90	4,361.22	
0	18	40	3,571.2	41.80%	0.90	3,214.08	41.80%
4			4,972.6	58.20%	0.90	4,475.34	
Total			8,543.8	100.00%	0.90	7,689.42	
0	TOTAL CLASS 18		4,682.0	34.97%	0.90	4,213.80	34.97%
4			8,707.6	65.03%	0.90	7,836.84	
Total			13,389.6	100.00%	0.90	12,050.64	
0	20	22	620.0	3.52%	0.90	558.00	3.52%
4			16,985.2	96.48%	0.90	15,286.68	
Total			17,605.2	100.00%	0.90	15,844.68	
0	21	20	2,236.1	28.96%	0.90	2,012.49	28.96%
4			5,486.3	71.04%	0.90	4,937.67	
Total			7,722.4	100.00%	0.90	6,950.16	

Rule 12 Credit Analysis

CAR ID	Rate Class	Stat Class	Earned PDL Exposure	% of Class Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	25	42	2,678.2	6.82%	0.90	2,410.38	6.82%
4			36,566.0	93.18%	0.90	32,909.40	
Total			39,244.2	100.00%	0.90	35,319.78	
0	26	40	12,693.1	45.27%	0.90	11,423.79	45.27%
4			15,346.1	54.73%	0.90	13,811.49	
Total			28,039.2	100.00%	0.90	25,235.28	
TOTAL ALL YOUNG MALE INEXPERIENCED CLASSES							
0	ALL	ALL	26,875.1	16.14%	0.90	24,187.59	16.14%
4			139,611.5	83.86%	0.90	125,650.35	
Total			166,486.6	100.00%	0.90	149,837.94	

Rule 12 Credit Analysis

CAR ID	Rate Class	Stat Class	Earned OTC Exposure	% of Class Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	17	22	777.2	4.66%	0.90	699.5	4.66%
4			15,905.7	95.34%	0.90	14,315.1	
Total			16,682.9	100.00%	0.90	15,014.6	
0	17	42	1,908.9	8.47%	0.90	1,718.0	8.47%
4			20,637.7	91.53%	0.90	18,573.9	
Total			22,546.6	100.00%	0.90	20,291.9	
0	TOTAL CLASS 17		2,686.1	6.85%	0.90	2,417.5	6.85%
4			36,543.4	93.15%	0.90	32,889.1	
Total			39,229.5	100.00%	0.90	35,306.6	
0	18	20	897.0	22.97%	0.90	807.3	22.97%
4			3,008.6	77.03%	0.90	2,707.7	
Total			3,905.6	100.00%	0.90	3,515.0	
0	18	40	2,842.4	41.11%	0.90	2,558.2	41.11%
4			4,071.5	58.89%	0.90	3,664.4	
Total			6,913.9	100.00%	0.90	6,222.5	
0	TOTAL CLASS 18		3,739.4	34.56%	0.90	3,365.5	34.56%
4			7,080.1	65.44%	0.90	6,372.1	
Total			10,819.5	100.00%	0.90	9,737.6	

Rule 12 Credit Analysis

CAR ID	Rate Class	Stat Class	Earned OTC Exposure	% of Class Exposure	Credit Factor	Potential/ Actual Credits	Credit Utilization
0	20	22	359.3	4.22%	0.90	323.4	4.22%
4			8,161.8	95.78%	0.90	7,345.6	
Total			8,521.1	100.00%	0.90	7,669.0	
0	21	20	1,741.2	29.33%	0.90	1,567.1	29.33%
4			4,196.2	70.67%	0.90	3,776.6	
Total			5,937.4	100.00%	0.90	5,343.7	
0	25	42	1,656.9	7.57%	0.90	1,491.2	7.57%
4			20,217.9	92.43%	0.90	18,196.1	
Total			21,874.8	100.00%	0.90	19,687.3	
0	26	40	10,194.5	45.24%	0.90	9,175.1	45.24%
4			12,339.1	54.76%	0.90	11,105.2	
Total			22,533.6	100.00%	0.90	20,280.2	
TOTAL ALL YOUNG MALE INEXPERIANCED CLASSES							
0	ALL	ALL	20,377.4	18.71%	0.90	18,339.7	18.71%
4			88,538.5	81.29%	0.90	79,684.7	
Total			108,915.9	100.00%	0.90	98,024.3	

1987 Calendar Year Private Passenger Physical Damage Class for Report Young Male Inexperienced Operators

Rule 12 Credit Analysis

All Classes CAR ID Code = 0	Earned OTC Exposure	% of Rate Class Exp.	Credit Factor	Actual Credits	Credit Utilization
Rate Class 17	2,686.1	6.85%	0.90	2,417.5	6.85%
Rate Class 18	3,739.4	34.56%	0.90	3,365.5	34.56%
Rate Class 20	359.3	4.22%	0.90	323.4	4.22%
Rate Class 21	1,741.2	29.33%	0.90	1,567.1	29.33%
Rate Class 25	1,656.9	7.57%	0.90	1,491.2	7.57%
Rate Class 26	10,194.5	45.24%	0.90	9,175.1	45.24%
Rate Class All	20,377.4	18.71%	0.90	18,339.7	18.71%

All Classes CAR ID Code = 4	Earned OTC Exposure	% of Rate Class Exp.	Credit Factor	Potential Credits	Credit Utilization
Rate Class 17	36,543.4	93.15%	0.90	32,889.1	No Credit
Rate Class 18	7,080.1	65.44%	0.90	6,372.1	No Credit
Rate Class 20	8,161.8	95.78%	0.90	7,345.6	No Credit
Rate Class 21	4,196.2	70.67%	0.90	3,776.6	No Credit
Rate Class 25	20,217.9	92.43%	0.90	18,196.1	No Credit
Rate Class 26	12,339.1	54.76%	0.90	11,105.2	No Credit
Rate Class All	88,538.5	81.29%	0.90	79,684.7	No Credit

All Classes CAR ID Code = All	Earned OTC Exposure	% of Rate Class Exp.	Credit Factor	Potential/ Actual Credits	Credit Utilization
Rate Class 17	39,229.5	100.00%	0.90	35,306.6	No Credit
Rate Class 18	10,819.5	100.00%	0.90	9,737.6	No Credit
Rate Class 20	8,521.1	100.00%	0.90	7,669.0	No Credit
Rate Class 21	5,937.4	100.00%	0.90	5,343.7	No Credit
Rate Class 25	21,874.8	100.00%	0.90	19,687.3	No Credit
Rate Class 26	22,533.6	100.00%	0.90	20,280.2	No Credit
Rate Class All	108,915.9	100.00%	0.90	98,024.3	No Credit